

CUSTER COUNTY

AUDIT REPORT

For the Two Years Ended December 31, 2019

CUSTER COUNTY
COUNTY OFFICIALS
December 31, 2019

Board of Commissioners:

Jim Lintz-Chairman
Mark Hartman
Craig Hindle
Mike Linde
Jesse Sorenson

Auditor:
Terri Cornelison

Treasurer:
Dawn McLaughlin

State's Attorney:
Tracy Kelley

Register of Deeds:
Teri L. Morgan

Sheriff:
Marty Mechaley

CUSTER COUNTY
TABLE OF CONTENTS

Page

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 <i>Government Auditing Standards</i>	1
Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	3
Schedule of Prior Audit Findings.....	5
Schedule of Current Audit Findings and Questioned Costs.....	5
Independent Auditor's Report.....	14
<i>Basic Financial Statements</i>	
<u>Government-wide Financial Statements:</u>	
As of December 31, 2019:	
Statement of Net Position--Modified Cash Basis.....	17
For the Year Ended December 31, 2019:	
Statement of Activities--Modified Cash Basis.....	18
For the Year Ended December 31, 2018:	
Statement of Activities--Modified Cash Basis.....	19
<u>Fund Financial Statements:</u>	
<u>Governmental Funds</u>	
As of December 31, 2019:	
Balance Sheet--Modified Cash Basis.....	20
For the Year Ended December 31, 2019:	
Statement of Revenues, Expenditures and Changes in Fund Balances--Modified Cash Basis.....	22
For the Year Ended December 31, 2018:	
Statement of Revenues, Expenditures and Changes in Fund Balances--Modified Cash Basis.....	26
<u>Fiduciary Funds</u>	
As of December 31, 2019:	
Statement of Fiduciary Net Position--Modified Cash Basis.....	30
Notes to the Modified Cash Basis Financial Statements.....	31

Supplementary Information:

Schedule of the County's Proportionate Share of the Net Pension Liability (Asset).....	50
Notes to the Supplementary Information – Pension Schedules.....	51
Schedule of Expenditures of Federal Awards.....	52
Schedule of Changes in Long-Term Debt.....	53



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RUSSELL A. OLSON
AUDITOR GENERAL

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*

County Commission
Custer County
Custer, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the modified cash basis of accounting financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Custer County, South Dakota (County), as of December 31, 2019, and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the County's basic financial statements and have issued our report thereon dated July 14, 2021.

An adverse opinion for the aggregate discretely presented component unit was due to the County's financial statements not including the financial information for the Custer County Housing and Redevelopment Commission. An unmodified opinion was issued for the remaining opinion units.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County'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 County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Current Audit Findings and Questioned Costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses.

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 County's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Current Audit Findings and Questioned Costs as items No. 2019-001 and 2019-002 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* are described in the accompanying Schedule of Current Audit Findings and Questioned Costs as items No. 2019-003, 2019-004, 2019-005, and 2019-006.

County's Response to Findings

The County did not wish to respond to the findings identified in our audit as described in the accompanying Schedule of Current Audit Findings and Questioned Costs.

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 County'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 entity'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.



Russell A. Olson
Auditor General

July 14, 2021



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RUSSELL A. OLSON
AUDITOR GENERAL

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

County Commission
Custer County
Custer, South Dakota

Report on Compliance for Each Major Federal Program

We have audited Custer County, South Dakota (County), compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the biennial period ended December 31, 2019. The County's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Current Audit Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above.

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

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

Opinion on Each Major Federal Program

In our opinion, Custer County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the biennial period ended December 31, 2019.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

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 purposes. As required by South Dakota Codified Law 4-11-11, this report and our report on compliance for each major federal program are matters of public record and their distribution is not limited.



Russell A. Olson
Auditor General

July 14, 2021

CUSTER COUNTY
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS AND QUESTIONED COSTS

SCHEDULE OF PRIOR AUDIT FINDINGS

Prior Federal Audit Findings:

The prior audit report contained no written federal audit findings.

Prior Other Audit Findings:

Finding No. 2017-001:

Internal accounting controls over monitoring of cash and fund balances were inadequate resulting in a negative cash balance and a deficit fund balance of \$445,136.30 in the State Grants Fund and \$49,261.58 in the 911 Service Fund at December 31, 2017. This finding has not been resolved and has been restated as Current Audit Finding No. 2019-001.

Finding No. 2017-002:

The County did not comply with several South Dakota Codified Laws (SDCL's) governing the operations of the County. This finding has not been resolved and has been restated as Current Audit Finding No. 2019-003, 2019-004, 2019-005, and 2019-006.

SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS

Summary of the Independent Auditor's Results:

Financial Statements

- a. An adverse opinion was issued for the omission of the Custer County Housing and Redevelopment Commission, a discretely presented component unit, financial statements. An unmodified opinion was issued on the primary government's financial statements presented on an other comprehensive basis of accounting – modified cash basis.
- b. A material weakness was disclosed by our audit of the financial statements for cash internal control deficiencies and financial reporting errors as discussed in Current Other Audit Findings No. 2019-001 and 2019-002.
- c. Our audit disclosed the County did not comply with state statutes related to the operations of the County as discussed in Current Other Audit Finding No. 2019-003, 2019-004, 2019-005, and 2019-006.

Federal Awards

- d. An unmodified opinion was issued on compliance with the requirements applicable to major programs.
- e. Our audit did not disclose any audit findings that are required to be reported in accordance with 2 CFR 200.516(a).
- f. The federal awards tested as major programs were:
 - 1. Forest Service - Schools and Roads Cluster
 - 2. Payments in Lieu of Taxes

CFDA # 15.226

- g. The dollar threshold used to distinguish between Type A and Type B federal award programs was \$750,000.
- h. Custer County did not qualify as a low-risk auditee.

Current Federal Audit Findings:

There are no written current federal compliance audit findings to report.

Current Other Audit Findings:

Internal Control-Related Findings - Material Weaknesses:

Cash Internal Control Deficiencies and Noncompliance

Finding No. 2019-001:

Criteria:

The County's internal controls over the cash and investments reconciliation and reporting process were inadequate resulting in diminished assurance that the County's financial transactions were properly recorded, and its assets were adequately safeguarded.

Condition:

Internal controls serves as a defense in safeguarding assets and in preventing and detecting errors; fraud; noncompliance with provisions of laws, regulations, contracts or grant agreements; or abuse.

Also, South Dakota Codified Law (SDCL) 7-10-3 requires that the County Auditor shall at the close of each calendar month list all cash and cash items in the hands of the County Treasurer and at the same time verify the balances in the several bank depositories.

We noted the following deficiencies in internal controls in the cash and investment reconciliation and reporting process:

During 2018 and 2019 the County Auditor did not reconcile the General Ledger cash balances with the County Treasurer's Office balances which resulted in an internal control deficiency over accounting for cash. We attempted to reconcile the General Ledger cash balances at December 31, 2019 with the County Treasurer. The following significant errors and omissions were noted:

- During the two-year audit period five daily batches of miscellaneous receipts were incorrectly posted twice to the General Ledger Cash accounts in the amount of \$155,984.58.
- During November 2018, thirteen days of property tax collections were not posted to General Ledger Cash accounts in the amount of \$1,111,769.33.
- During 2018, four daily batches of miscellaneous receipts were not posted to the General Ledger Cash accounts in the amount of \$43,665.34.
- During November 2019, property tax disbursements to various taxing entities were incorrectly posted to General Ledger Cash accounts four extra times in the amount of \$13,944,593.20.
- Numerous posting errors were made to the State Motor Vehicle General Ledger Cash accounts over the two year audit period resulting in \$262,657.30 of adjustments.
- Incorrect posting errors for various checks, in the amount of \$240,069.33, were noted to General Ledger Cash accounts.
- Two correcting journal entries from the 2017 audit were not post to General Ledger Cash accounts in the amount of \$119,586.88.
- Other less significant errors were noted and corrected in the General Ledger Cash accounts.

After all errors and omissions noted were corrected, a \$61,979.00 unknown, unexplained variance adjustment was needed to balance the General Ledger Cash accounts to the actual cash in the bank and amounts reported by the County Treasurer.

The County Auditor also had not monitored the cash balances in the various funds in the General Ledger during 2018 and 2019. This resulted in the following:

- At December 31, 2019, the cash balance of the Emergency Management Fund had a negative balance of \$134,007.77
- At December 31, 2019, the cash balance of the Domestic Abuse Fund had a negative balance of \$1,261.00.
- At December 31, 2019, the cash balance of the State Grants Fund had a negative balance of \$100,260.50.
- At December 31, 2019, the cash balance of the 911 Service Fund had a negative balance of \$668,805.19.

On October 7, 2020 the County Commission approved cash transfers, totaling \$1,161,719.40, to the following funds to assist in correcting the deficit cash balances: Emergency Management Fund - \$234,907.78, Domestic Abuse Fund - \$4,951.00, and 911 Service Fund - \$921,860.62.

This is the second consecutive audit in which a similar finding was noted.

Effect:

The County was exposed to an increased risk of accounting error or irregularities not being detected in a timely manner. The County was also exposed to greater risk that management decisions could be made using inaccurate cash and investment balances.

Cause:

The County did not perform the necessary and required reconciliations and did not monitor the cash balances of each individual fund.

Recommendations:

1. We recommend the County perform a reconciliation of the recorded cash and investments to the financial institution's balance on a monthly basis.
2. We recommend the County monitor the cash balances of each fund and make transfers as appropriate to avoid having unfunded reserves or negative fund cash balances.

Views of responsible officials:

The County chose not to respond to this finding.

Financial Reporting Errors

Finding No. 2019-002:

Criteria:

The County's internal control structure should be designed to provide for the preparation of the annual financial reports, which includes having an adequate system for recording and processing entries material to the annual financial reports being audited in accordance with the modified cash basis of accounting.

Condition:

The County does not have an internal control system designed to provide for the preparation of the annual financial reports in accordance with the modified cash basis of accounting. We noted numerous significant reporting errors within the annual reports prepared by the County. This is the third consecutive audit in which a similar finding was noted.

Context:

We noted the following significant errors in the County's annual financial reports for the years ended December 31, 2018 and December 31, 2019.

- a. The 2019 Governmental Funds Balance Sheet contained the following significant errors:
 - General Fund Cash and Cash Equivalents was overstated by \$4,347,899.67.
 - General Fund Investments were understated by \$4,360,863.54.
 - Road and Bridge Fund Cash and Cash Equivalents was understated by \$166,968.41.
 - Courthouse Building Fund Cash and Cash Equivalents was understated by \$38,674.95
 - Other Governmental Funds Cash and Cash Equivalents was understated by \$90,614.25.
 - All Equity amounts were adjusted accordingly due to the cash errors noted above and errors listed below for revenue and expenditures.
- b. The 2019 Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance contained the following errors:
 - General Fund Beginning Transfer Out was understated by \$75,000.00 and Contingency Transfer was overstated \$75,000.00.
 - General Fund Sheriff Expenditures was understated by \$74,357.90 and Miscellaneous Revenue was understated \$74,357.90
 - Courthouse Building Fund General Government Expenditures was understated \$75,000.00 and Transfers In was understated \$75,000.00
 - State Grant Fund Federal Revenue was understated \$730,999.64 and State Grant Revenue was overstated \$730,999.64.
- c. The 2018 Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance contained the following errors:
 - General Fund Property Taxes – Current was understated \$234,260.46.
 - General Fund Urban and Rural Development Expenditures was understated \$100,000.00
 - Road and Bridge Fund Property Taxes – Current was understated \$55,020.19.
 - Fire Fund Property Taxes – Current was understated \$18,305.96.
 - Courthouse Building Fund Property Taxes – Current was understated \$38,674.95.
- d. The 2019 Fiduciary Funds Statement of Net Position contained the following significant errors:
 - Cash and Cash Equivalents was understated by \$14,350,222.98.

Effect:

Inaccurate and incomplete information was presented to the users of the annual financial reports.

Cause:

The County does not have an internal control system designed to provide for the preparation of the annual financial reports in accordance with the modified cash basis of accounting.

Recommendation:

3. We recommend that the County strengthen internal controls over financial reporting.

Views of responsible officials:

The County chose not to respond to this finding.

Compliance and Other Matters:

Budgetary Noncompliance

Finding No. 2019-003:

Criteria:

South Dakota Codified Laws (SDCL's) 7-21-20 and 7-21-25 prohibit a County from incurring expenditures in excess of the amount specified in the appropriations ordinance.

Condition:

The County incurred expenditures in excess of appropriations contrary to SDCL 7-21-25. This is the second consecutive audit in which a similar finding was noted.

Context:

We noted the following expenditures in excess of appropriations for the years ended December 31, 2018 and December 31, 2019:

	Expenditure in Excess of Appropriations	
	Calendar Year 2018	Calendar Year 2019
<u>General Fund:</u>		
General Government:		
Board of County Commissioners	\$ 10,996.57	\$ 3,626.99
Elections	6,735.73	26.35
Financial Administration – Auditor	26,975.07	13,097.81
Financial Administration – Treasurer	2,258.40	
Legal Services – States Attorney	2,981.95	
Other Administration – General Government Building		22,581.02
Other Administration – Director of Equalization		5,549.23
Other Administration – Register of Deeds	7,619.88	
Public Safety:		
Law Enforcement – Sheriff		99,900.19
Law Enforcement – Corner		4,802.82
Law Enforcement – Other Protective and Emergency Services	3,878.37	3,669.95
Public Works:		
Transportation – Airport	55,038.52	7,640.51
Health and Welfare:		
Economic Assistance – Support of Poor	2,922.90	6,519.27
Economic Assistance – Other		95,000.00
Mental Health Services – Mental Illness Board	2,245.23	4,497.57
Culture – Public Library	4,375.60	
Soil Conservation – County Extension	230.38	
Urban Development – Urban and Rural Development	100,000.00	

Road and Bridge Fund:

Intergovernmental Expenditures	5.00	5.00
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Courthouse Building Fund:

Other Administration – General Government Building		2,150.08
Public Works – Highways, Roads and Bridges		296,971.00
Transportation – Airport	181,703.82	84,271.26

Fire Fund:

Public Safety – Fire Protection	4,444.61	129,680.42
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Emergency Management Fund:

Protective and Emergency Services – Emergency and Disaster Services	33,008.88	69,125.80
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State Grant Fund:

Other Administration – General Government Building		225,020.00
Protective and Emergency Services – Other Protective and Emergency Services	4,375.00	
Transportation – Airport	303,320.68	

24/7 Sobriety Fund:

Law Enforcement – Other Law Enforcement		1,066.16
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Modernization and Preservation Fund:

Other Administration – Register of Deeds		6,881.74
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Effect:

The County is not in compliance with SDCL 7-21-25.

Cause:

The Board of County Commissioners did not properly monitor the departmental budgets in order to consider approving budget supplements or contingency transfers.

Recommendation:

4. We recommend that the County comply with SDCL 7-21-25.

Views of responsible officials:

The County chose not to respond to this finding.

Annual Financial Report

Finding No. 2019-004:**Criteria:**

SDCL 7-10-4 states: "The county auditor shall prepare by the first day of March of each year a report of the revenues and expenditures of the previous year and the assets, liabilities, and equity of the county as of December thirty-first of the previous year. The report shall be made in the form prescribed by the auditor-general and shall be published within thirty days in the official newspapers of the county. A copy of the publication shall be filed with the auditor-general."

Condition:

The County Auditor did not prepare, publish, or file with the Auditor General of the Department of Legislative Audit on a timely basis the annual financial reports for the years ended December 31, 2018 and December 31, 2019 as required by SDCL 7-10-4.

Context:

The annual financial reports for the years ended December 31, 2018 and the year ended December 31, 2019 were not filed with the Auditor General until October 21, 2020 and were not published as of the completion of this audit.

Effect:

The County is not in compliance with SDCL 7-10-4.

Cause:

The County Auditor did not file or publish the annual financial reports for the years ended December 31, 2018 and December 31, 2019 in accordance with SDCL 7-10-4.

Recommendation:

5. We recommend that the County comply with SDCL 7-10-4.

Views of responsible officials:

The County chose not to respond to this finding.

Tax Reporting and Reconciliation

Finding No. 2019-005:

Criteria:

SDCL 10-1-17 requires the County to file a tax assessment and collection report with the South Dakota Department of Revenue. Also, SDCL 10-23-2 states the County Auditor shall reconcile the published list of unpaid taxes to the unpaid taxes in the tax list.

Condition:

The County Auditor did not prepare and submit the tax assessment and collection report (Form PT 92) to the Department of Revenue for 2018 or 2019 as required by SDCL 10-1-17. This is the second consecutive audit in which a similar finding was noted.

The County Auditor did not reconcile the published list of unpaid taxes to the unpaid taxes in the tax list as required by SDCL 10-23-2. This is the second consecutive audit in which a similar finding was noted.

Context:

We noted that the County Auditor did not prepare and submit to the Department of Revenue the 2018 and 2019 Form PT92.

We noted that the County Auditor did not reconcile the published list of unpaid taxes to the unpaid tax list.

Effect:

The County is not in compliance with SDCL 10-1-17 and SDCL 10-23-2.

Cause:

The County Auditor did not prepare and submit the tax assessment and collection report (Form PT 92) to the Department of Revenue for 2018 or 2019 as required by SDCL 10-1-17. Also, the County Auditor did not reconcile the published list of unpaid taxes to the unpaid taxes in the tax list as required by SDCL 10-23-2.

Recommendations:

6. We recommend that the County Auditor prepare and submit the tax assessment and collection report (Form PT 92) to the Department of Revenue as required by SDCL 10-1-17.
7. We recommend that the County Auditor reconcile the published list of unpaid taxes to the unpaid taxes in the tax list as required by SDCL 10-23-2.

Views of responsible officials:

The County chose not to respond to this finding.

Noncompliance State Competitive Bid Statutes

Finding No. 2019-006:

Criteria:

SDCL 5-18A-14 states "If the purchasing agency intends to enter into a contract for any public improvement that involves the expenditure of one hundred thousand dollars or more, or a contract for the purchase of supplies or services, other than professional services, that involves the expenditure of twenty-five thousand dollars or more, the purchasing agency shall advertise for bids or proposals..." SDCL 5-18A-22 (19) established the threshold for political subdivisions, for the purchase of equipment involving the expenditure of more than fifty thousand dollars requires advertising for bids or proposals.

Condition:

The County did not advertise for bids for the purchase of four pieces of equipment in 2019 as required by state competitive bid statutes resulting in a lack of assurance that the lowest competitive price was obtained for purchases requiring bids.

Context:

We noted four instances in 2019 where the County purchased equipment without advertising for bids as required by SDCL 5-18A-14. The four instances noted are as follows:

Voucher Number	Approval Date	Description of Purchase	Total Amount of Purchase
0097384	10/4/2019	Hwy Wheel Loader	\$ 199,892.00
0097637	11/15/2019	Hwy JD Tractor	72,393.34
0097641	11/15/2019	Hwy SDI Trailer	57,700.00
0097642	11/15/2015	Hwy 2020 Freightliner Truck	148,611.00
Total Cost of Equipment Purchases Not Bid In 2019			<u>\$ 478,596.34</u>

Effect:

The County is not in compliance with SDCL 5-18A-14.

Cause:

The County did not advertise for the purchase of equipment as required by SDCL 5-18A-14 and is unable to ensure that the County received the lowest competitive price.

Recommendation:

8. We recommend that the County comply with state competitive bid statutes.

Views of responsible officials:

The County chose not to respond to this finding.



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RUSSELL A. OLSON
AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT

County Commission
Custer County
Custer, South Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis of accounting financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Custer County, South Dakota (County), as of December 31, 2019, and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The County's management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1.c.; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Basis for Adverse Opinion on the Aggregate Discretely Presented Component Unit

The financial statements do not include financial data for the County's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for the component unit to be reported with the financial data of the County's primary government unless the County also issues financial statements for the financial reporting entity that include the financial data for its component unit. The County has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the assets, net position, revenues, and expenses of the aggregate discretely presented component unit would have been presented and are not reasonably determinable.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Aggregate Discretely Presented Component Unit" paragraph, the financial statements referred to above do not present fairly, the financial position of the aggregate discretely presented component unit of the Custer County as of December 31, 2019, and the respective changes in financial position thereof for each of the years in the biennial period then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position on a modified cash basis of accounting of the governmental activities, each major fund, and the aggregate remaining fund information of Custer County as of December 31, 2019, and the respective changes in financial position thereof for each of the years in the biennial period then ended in accordance with the modified cash basis of accounting described in Note 1.c. to the financial statements.

Basis of Accounting

We draw attention to Note 1.c. of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the County's basic financial statements. The Schedule of Expenditures of Federal Awards, which as required by the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, the Schedule of the County's Proportionate Share of the Net Pension Liability (Asset), and the Schedule of Changes in Long-Term Debt listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying

accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 14, 2021, on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 County'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 County's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Russell A. Olson". The signature is written in a cursive, flowing style.

Russell A. Olson
Auditor General

July 14, 2021

CUSTER COUNTY
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
December 31, 2019

	<u>Primary Government Governmental Activities</u>
ASSETS:	
Cash and Cash Equivalents	\$ 1,028,321.48
Investments	<u>4,674,629.41</u>
TOTAL ASSETS	<u><u>\$ 5,702,950.89</u></u>
NET POSITION:	
Restricted For: (See Note 6)	
Road and Bridge Purposes	\$ 21,232.03
Courthouse Building Purposes	338,805.49
Other Purposes	739,965.07
Unrestricted	<u>4,602,948.30</u>
TOTAL NET POSITION	<u><u>\$ 5,702,950.89</u></u>

The notes to the financial statements are an integral part of this statement.

CUSTER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For the Year Ended December 31, 2019

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Primary Government
				Governmental Activities
Primary Government:				
Governmental Activities:				
General Government	\$ 2,645,655.05	\$ 301,271.53	\$ 95,282.24	\$ (2,249,101.28)
Public Safety	2,371,267.58	514,708.84	121,060.03	(1,735,498.71)
Public Works	3,595,481.06	130,190.55	2,381,624.55	(1,083,665.96)
Health and Welfare	171,982.12	7,141.01		(164,841.11)
Culture and Recreation	573,888.71	6,909.21	14,474.51	(552,504.99)
Conservation of Natural Resources	159,484.11	121.84	6,037.26	(153,325.01)
Urban and Economic Development	142,882.95	78,951.75		(63,931.20)
Intergovernmental	15,005.00			(15,005.00)
*Interest on Long-Term Debt	285,211.00			(285,211.00)
Total Primary Government	<u>\$ 9,960,857.58</u>	<u>\$ 1,039,294.73</u>	<u>\$ 2,618,478.59</u>	<u>(6,303,084.26)</u>
General Revenues:				
Taxes:				
* The County does not have interest expense related to the functions presented above. This amount includes indirect interest expense on general long-term debt.	Property Taxes			4,366,654.96
	Wheel Tax			173,182.98
	State Shared Revenues			89,565.30
	Grants and Contributions not Restricted to Specific Programs			747,212.60
	Unrestricted Investment Earnings			129,916.54
	Miscellaneous Revenue (Expense)			(29,053.84)
Total General Revenues				<u>5,477,478.54</u>
Change in Net Position				(825,605.72)
Net Position - Beginning				<u>6,528,556.61</u>
NET POSITION - ENDING				<u>\$ 5,702,950.89</u>

* The County does not have interest expense related to the functions presented above. This amount includes indirect interest expense on general long-term debt.

The notes to the financial statements are an integral part of this statement.

CUSTER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For the Year Ended December 31, 2018

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Primary Government
				Governmental Activities
Primary Government:				
Governmental Activities:				
General Government	\$ 2,005,073.88	\$ 331,635.23	\$ 87,843.24	\$ (1,585,595.41)
Public Safety	2,019,767.27	482,043.33	123,757.29	(1,413,966.65)
Public Works	3,124,497.48	179,977.80	1,546,552.35	(1,397,967.33)
Health and Welfare	57,957.84	7,674.65		(50,283.19)
Culture and Recreation	279,653.01	7,941.95	12,812.88	(258,898.18)
Conservation of Natural Resources	146,214.05		6,121.84	(140,092.21)
Urban and Economic Development	239,943.01	108,240.70		(131,702.31)
*Interest on Long-Term Debt	285,211.00			(285,211.00)
Total Primary Government	<u>\$ 8,158,317.54</u>	<u>\$ 1,117,513.66</u>	<u>\$ 1,777,087.60</u>	<u>(5,263,716.28)</u>
General Revenues:				
Taxes:				
* The County does not have interest expense related to the functions presented above. This amount includes indirect interest expense on general long-term debt.	Property Taxes			4,197,858.41
	Wheel Tax			169,605.88
	State Shared Revenues			100,109.17
	Grants and Contributions not Restricted to Specific Programs			956,991.00
	Unrestricted Investment Earnings			33,201.54
	Miscellaneous Revenue			105,280.87
	Total General Revenues			<u>5,563,046.87</u>
Change in Net Position				299,330.59
Net Position - Beginning				<u>6,229,226.02</u>
NET POSITION - ENDING				<u>\$ 6,528,556.61</u>

* The County does not have interest expense related to the functions presented above. This amount includes indirect interest expense on general long-term debt.

The notes to the financial statements are an integral part of this statement.

CUSTER COUNTY
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
December 31, 2019

	General Fund	Road and Bridge Fund	Courthouse Building Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:					
Cash and Cash Equivalents	\$ 391,810.19	\$ 657,529.78	\$ 423,202.42	\$ (444,220.91)	\$ 1,028,321.48
Investments	4,360,863.54			313,765.87	4,674,629.41
TOTAL ASSETS	<u>\$ 4,752,673.73</u>	<u>\$ 657,529.78</u>	<u>\$ 423,202.42</u>	<u>\$ (130,455.04)</u>	<u>\$ 5,702,950.89</u>
FUND BALANCES: (See Note 1.j.)					
Restricted	\$	\$ 21,232.03	\$ 338,805.49	\$ 739,965.07	\$ 1,100,002.59
Assigned	2,874,766.97	636,297.75	84,396.93	33,914.35	3,629,376.00
Unassigned	1,877,906.76			(904,334.46)	973,572.30
TOTAL FUND BALANCES	<u>\$ 4,752,673.73</u>	<u>\$ 657,529.78</u>	<u>\$ 423,202.42</u>	<u>\$ (130,455.04)</u>	<u>\$ 5,702,950.89</u>

The notes to the financial statements are an integral part of this statement.

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CUSTER COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2019

	General Fund	Road and Bridge Fund	Courthouse Building Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes:					
General Property Taxes--Current	\$ 3,017,161.88	\$ 583,404.95	\$ 498,199.40	\$ 248,237.93	\$ 4,347,004.16
General Property Taxes--Delinquent	2,814.01	580.65	498.25	40.54	3,933.45
Penalties and Interest	8,373.52	1,940.62	1,410.22	691.83	12,416.19
Mobile Home Tax	845.56	63.19	146.72		1,055.47
Wheel Tax		173,182.98			173,182.98
Other Taxes	1,728.13		304.81	212.75	2,245.69
Licenses and Permits	93,709.55			2,935.00	96,644.55
Intergovernmental Revenue:					
Federal Grants	1,155.84			813,695.97	814,851.81
Federal Shared Revenue		191,067.56			191,067.56
Federal Payments in Lieu of Taxes	894,514.00				894,514.00
State Grants		222,264.13		47,494.51	269,758.64
State Shared Revenue:					
Bank Franchise	9,760.65	3,519.54	1,416.27	977.65	15,674.11
Motor Vehicle Licenses		710,023.87			710,023.87
State Highway Fund		12,948.90			12,948.90
Prorate License Fees		47,365.17			47,365.17
Abused and Neglected Child Defense	3,163.09				3,163.09
63 3/4% Mobile Home		35,301.01			35,301.01
Secondary Road Motor Vehicle Remittances		238,808.07			238,808.07
Telecommunications Gross Receipts Tax	30,029.57				30,029.57
Motor Vehicle 1/4%	3,506.89				3,506.89
Motor Fuel Tax		4,933.71			4,933.71
911 Remittances				92,771.91	92,771.91
Liquor Tax Reversion (25%)	43,861.62				43,861.62
Other Intergovernmental Revenue				5,750.00	5,750.00
Charges for Goods and Services:					
General Government:					
Treasurer's Fees	54,184.97				54,184.97
Register of Deeds' Fees	133,045.00			10,354.70	143,399.70
Legal Services	56,413.27				56,413.27
Clerk of Courts Fees	10,904.91			725.00	11,629.91
Other Fees	117.71				117.71

Public Safety:					
Law Enforcement	473,333.16				473,333.16
Prisoner Care	10,243.30				10,243.30
Sobriety Testing				18,153.00	18,153.00
Other	718.15				718.15
Public Works:					
Road Maintenance Contract Charges		81,217.91			81,217.91
Airport	44,073.88				44,073.88
Health and Welfare:					
Economic Assistance:					
Veterans Service Officer	2,812.50				2,812.50
Health Assistance:					
Women, Infants and Children	4,111.01				4,111.01
Culture and Recreation				6,909.21	6,909.21
Conservation of Natural Resources	121.84				121.84
Other Charges	10,762.67				10,762.67
Fines and Forfeits:					
Costs	9,366.23				9,366.23
Miscellaneous Revenue:					
Investment Earnings	64,543.82	20,496.20		44,876.52	129,916.54
Rent	15,081.76				15,081.76
Contributions and Donations				14,474.51	14,474.51
Refund of Prior Year's Expenditures	8,106.70				8,106.70
Other	2,031.98	200.00			2,231.98
Unknown, Unexplained Variance		302.51	1,476.00	1,021.78	2,800.29
Total Revenues	<u>5,010,597.17</u>	<u>2,327,620.97</u>	<u>503,451.67</u>	<u>1,309,322.81</u>	<u>9,150,992.62</u>

Expenditures:

General Government:

Legislative:

Board of County Commissioners	164,188.99				164,188.99
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Elections	9,867.35				9,867.35
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Judicial System	20,584.88				20,584.88
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Financial Administration:

Auditor	220,376.80				220,376.80
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Treasurer	243,834.14				243,834.14
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Legal Services:

State's Attorney	295,291.95				295,291.95
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Court Appointed Attorney	56,810.05				56,810.05
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Other Administration:

General Government Building	188,577.02		317,150.08	225,020.00	730,747.10
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Director of Equalization	308,954.24				308,954.24
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Register of Deeds	109,141.41			21,881.74	131,023.15
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Veterans Service Officer	27,960.52				27,960.52
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Predatory Animal	1,654.40				1,654.40
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Geographic Information System	83,586.27				83,586.27
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CUSTER COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2019
(Continued)

	General Fund	Road and Bridge Fund	Courthouse Building Fund	Other Governmental Funds	Total Governmental Funds
Information Technology	306,621.72				306,621.72
Human Resources	44,153.49				44,153.49
Public Safety:					
Law Enforcement:					
Sheriff	1,189,898.19				1,189,898.19
County Jail	113,621.98				113,621.98
Coroner	19,302.82				19,302.82
Other Law Enforcement				27,364.15	27,364.15
Protective and Emergency Services:					
Fire Protection				407,002.42	407,002.42
Emergency and Disaster Services				163,310.79	163,310.79
Communication Center				409,397.28	409,397.28
Other Protective and Emergency Services	41,369.95				41,369.95
Public Works:					
Highways and Bridges:					
Highways, Roads and Bridges		3,011,298.29	296,971.00		3,308,269.29
Transportation:					
Airport	202,940.51		84,271.26		287,211.77
Health and Welfare:					
Economic Assistance:					
Support of Poor	16,219.27				16,219.27
Food Stamp Distribution	3,500.00				3,500.00
Other	100,000.00				100,000.00
Health Assistance:					
County Nurse	25,052.82				25,052.82
Social Services:					
Domestic Abuse				5,000.00	5,000.00
Mental Health Services:					
Mentally Ill	6,712.46				6,712.46
Developmentally Disabled	1,000.00				1,000.00
Mental Illness Board	14,497.57				14,497.57
Culture and Recreation:					
Culture:					
Public Library	242,352.47			13,942.74	256,295.21
Historical Museum	57,500.00				57,500.00
Historical Sites	50,000.00				50,000.00

Memorial Day Expense	100,000.00				100,000.00
Other	488.03				488.03
Recreation:					
Recreational Programs	2,100.00				2,100.00
County Fair	100,355.47				100,355.47
Senior Center	4,650.00				4,650.00
Other	2,500.00				2,500.00
Conservation of Natural Resources:					
Soil Conservation:					
County Extension	42,851.25				42,851.25
Soil Conservation Districts	17,165.79				17,165.79
Weed and Pest Control	99,467.07				99,467.07
Urban and Economic Development:					
Urban Development:					
Planning and Zoning	142,882.95				142,882.95
Intergovernmental Expenditures	15,000.00	5.00			15,005.00
Debt Service			285,211.00		285,211.00
Unknown, Unexplained Variance	78,532.06				78,532.06
Total Expenditures	<u>4,771,563.89</u>	<u>3,011,303.29</u>	<u>983,603.34</u>	<u>1,272,919.12</u>	<u>10,039,389.64</u>
Excess of Revenues Over (Under) Expenditures	<u>239,033.28</u>	<u>(683,682.32)</u>	<u>(480,151.67)</u>	<u>36,403.69</u>	<u>(888,397.02)</u>
Other Financing Sources (Uses):					
Transfers In			75,000.00		75,000.00
Transfers Out	(75,000.00)				(75,000.00)
Insurance Proceeds	26,452.05				26,452.05
Sale of County Property	13,468.81	22,870.44			36,339.25
Total Other Financing Sources (Uses)	<u>(35,079.14)</u>	<u>22,870.44</u>	<u>75,000.00</u>	<u>0.00</u>	<u>62,791.30</u>
Net Change in Fund Balance	203,954.14	(660,811.88)	(405,151.67)	36,403.69	(825,605.72)
Fund Balance - Beginning	<u>4,548,719.59</u>	<u>1,318,341.66</u>	<u>828,354.09</u>	<u>(166,858.73)</u>	<u>6,528,556.61</u>
FUND BALANCE - ENDING	<u>\$ 4,752,673.73</u>	<u>\$ 657,529.78</u>	<u>\$ 423,202.42</u>	<u>\$ (130,455.04)</u>	<u>\$ 5,702,950.89</u>

The notes to the financial statements are an integral part of this statement.

CUSTER COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2018

	<u>General Fund</u>	<u>Road and Bridge Fund</u>	<u>Courthouse Building Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Taxes:					
General Property Taxes--Current	\$ 2,860,290.86	\$ 556,537.14	\$ 502,359.61	\$ 263,058.03	\$ 4,182,245.64
General Property Taxes--Delinquent	678.47	34.55	120.19	43.98	877.19
Penalties and Interest	6,644.04	1,272.22	1,173.76	650.63	9,740.65
Mobile Home Tax	442.77	139.05	78.18		660.00
Wheel Tax		169,605.88			169,605.88
Other Taxes	3,325.66		588.33	420.94	4,334.93
Licenses and Permits	124,308.70			2,594.00	126,902.70
Intergovernmental Revenue:					
Federal Grants	151.00			134,015.33	134,166.33
Federal Shared Revenue		208,249.00			208,249.00
Federal Payments in Lieu of Taxes	955,991.00				955,991.00
State Grants	6,121.84	214,619.67		39,885.86	260,627.37
State Shared Revenue:					
Bank Franchise	9,523.72	3,434.11	1,381.89	953.92	15,293.64
Motor Vehicle Licenses		700,604.49			700,604.49
Liquor Tax Reversion	42,330.85				42,330.85
State Highway Fund (former 10% game)		25,897.80			25,897.80
Abused and Neglected Child Defense	4,915.69				4,915.69
Prorate License Fees		47,350.35			47,350.35
63 3/4% Mobile Home		36,881.04			36,881.04
Secondary Road Motor Vehicle Remittances		238,591.05			238,591.05
Telecommunications Gross Receipts Tax	42,484.68				42,484.68
Motor Vehicle 1/4%	3,343.49				3,343.49
Motor Fuel Tax		4,933.71			4,933.71
911 Remittances				84,657.86	84,657.86
Other Intergovernmental Revenue				7,428.37	7,428.37
Charges for Goods and Services:					
General Government:					
Treasurer's Fees	58,003.58				58,003.58

Register of Deeds' Fees	143,072.00			11,234.68	154,306.68
Legal Services	60,760.88				60,760.88
Clerk of Courts Fees	10,569.64			700.00	11,269.64
Other Fees	5,359.78				5,359.78
Public Safety:					
Law Enforcement	424,667.22				424,667.22
Prisoner Care	27,146.61				27,146.61
Sobriety Testing				19,685.00	19,685.00
Other	275.00				275.00
Public Works:					
Road Maintenance Contract Charges		89,556.75			89,556.75
Airport	81,762.70				81,762.70
Health and Welfare:					
Economic Assistance:					
Poor Lien Recoveries	288.35				288.35
Veterans Service Officer	2,812.50				2,812.50
Health Assistance:					
Women, Infants and Children	4,833.30				4,833.30
Culture and Recreation				7,941.95	7,941.95
Other Charges	9,204.69				9,204.69
Fines and Forfeits:					
Costs	6,286.50				6,286.50
Miscellaneous Revenue:					
Investment Earnings	27,469.44	12,261.01		(6,528.91)	33,201.54
Rent	26,449.83				26,449.83
Contributions and Donations	1,000.00			12,812.88	13,812.88
Refund of Prior Year's Expenditures	7,520.28				7,520.28
Other	38,307.70	5,810.00	856.75		44,974.45
Unknown, Unexplained Variance	16,049.00	4,539.18		2,445.25	23,033.43
Total Revenues	<u>5,012,391.77</u>	<u>2,320,317.00</u>	<u>506,558.71</u>	<u>581,999.77</u>	<u>8,421,267.25</u>

Expenditures:

General Government:

Legislative:

Board of County Commissioners

158,815.57

158,815.57

Elections

52,000.73

52,000.73

Judicial System

130,485.59

130,485.59

Financial Administration:

Auditor

213,036.07

213,036.07

Treasurer

242,541.40

242,541.40

Legal Services:

State's Attorney

249,376.95

249,376.95

CUSTER COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2018
(Continued)

	<u>General Fund</u>	<u>Road and Bridge Fund</u>	<u>Courthouse Building Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Other Administration:					
General Government Building	164,223.98		135,667.72		299,891.70
Director of Equalization	259,406.90				259,406.90
Register of Deeds	114,328.88			8,602.50	122,931.38
Veterans Service Officer	27,051.76				27,051.76
Predatory Animal	1,654.40				1,654.40
Geographic Information System	77,233.28				77,233.28
Information Technology	128,388.64				128,388.64
Human Resources	42,259.51				42,259.51
Public Safety:					
Law Enforcement:					
Sheriff	1,006,876.54				1,006,876.54
County Jail	164,246.21				164,246.21
Coroner	7,750.62				7,750.62
Other Law Enforcement				27,555.34	27,555.34
Protective and Emergency Services:					
Fire Protection				261,766.61	261,766.61
Emergency and Disaster Services				132,640.88	132,640.88
Communication Center				403,652.70	403,652.70
Other Protective and Emergency Services	15,278.37				15,278.37
Public Works:					
Highways and Bridges:					
Highways, Roads and Bridges		2,444,034.46			2,444,034.46
Transportation:					
Airport	195,438.52		181,703.82	303,320.68	680,463.02
Health and Welfare:					
Economic Assistance:					
Support of Poor	12,622.90				12,622.90
Food Stamp Distribution	3,500.00				3,500.00
Other	5,000.00				5,000.00
Health Assistance:					
County Nurse	23,875.85				23,875.85

Social Services:					
Domestic Abuse			5,000.00		5,000.00
Mental Health Services:					
Mentally Ill	2,713.86				2,713.86
Mental Illness Board	5,245.23				5,245.23
Culture and Recreation:					
Culture:					
Public Library	212,341.60		38,063.19		250,404.79
Historical Museum	7,500.00				7,500.00
Other	548.22				548.22
Recreation:					
Recreational Programs	2,100.00				2,100.00
County Fair	16,000.00				16,000.00
Senior Center	3,100.00				3,100.00
Conservation of Natural Resources:					
Soil Conservation:					
County Extension	47,561.38				47,561.38
Soil Conservation Districts	19,159.07				19,159.07
Weed and Pest Control	79,493.60				79,493.60
Urban and Economic Development:					
Urban Development:					
Planning and Zoning	139,943.01				139,943.01
Urban and Rural Development	100,000.00				100,000.00
Debt Service			285,211.00		285,211.00
Total Expenditures	<u>3,931,098.64</u>	<u>2,444,034.46</u>	<u>602,582.54</u>	<u>1,180,601.90</u>	<u>8,158,317.54</u>
Excess of Revenues Over (Under) Expenditures	<u>1,081,293.13</u>	<u>(123,717.46)</u>	<u>(96,023.83)</u>	<u>(598,602.13)</u>	<u>262,949.71</u>
Other Financing Sources (Uses):					
Insurance Proceeds	1,876.34	4,751.83			6,628.17
Sale of County Property	29,752.71				29,752.71
Total Other Financing Sources (Uses)	<u>31,629.05</u>	<u>4,751.83</u>	<u>0.00</u>	<u>0.00</u>	<u>36,380.88</u>
Net Change in Fund Balance	1,112,922.18	(118,965.63)	(96,023.83)	(598,602.13)	299,330.59
Fund Balance - Beginning	<u>3,435,797.41</u>	<u>1,437,307.29</u>	<u>924,377.92</u>	<u>431,743.40</u>	<u>6,229,226.02</u>
FUND BALANCE - ENDING	<u>\$ 4,548,719.59</u>	<u>\$ 1,318,341.66</u>	<u>\$ 828,354.09</u>	<u>\$ (166,858.73)</u>	<u>\$ 6,528,556.61</u>

The notes to the financial statements are an integral part of this statement.

CUSTER COUNTY
STATEMENT OF FIDUCIARY NET POSITION - MODIFIED CASH BASIS
FIDUCIARY FUNDS
December 31, 2019

	<u>Agency Funds</u>
ASSETS:	
Cash and Cash Equivalents	<u>\$ 585,562.07</u>
TOTAL ASSETS	<u><u>\$ 585,562.07</u></u>
NET POSITION:	
Individuals, Organizations, and Other Governments	<u>\$ 585,562.07</u>
TOTAL NET POSITION	<u><u>\$ 585,562.07</u></u>

The notes to the financial statements are an integral part of this statement.

CUSTER COUNTY
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.c., these financial statements are presented on a modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements.

a. Financial Reporting Entity:

The reporting entity of Custer County (County), 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); 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.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The County is financially accountable if its County Commission appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on, the County (primary government). The County may also be financially accountable for another organization if that organization is fiscally dependent on the County.

The Housing and Redevelopment Commission of Custer County, South Dakota (Commission) is a proprietary fund-type, discretely presented component unit. The five members of the Commission are appointed by the County Commission's Chairperson with the approval of the Board of County Commissioners for five-year, staggered terms. The Commission elects its own chairperson and recruits and employs its own management personnel and other workers. The County Commission, though, retains the statutory authority to approve or deny or otherwise modify the Commission's plans to construct a low-income housing unit, or to issue debt, which gives the County Commission the ability to impose its will on the Commission. Separately issued financial statements of the Housing and Redevelopment Commission may be obtained from: Custer County Auditor, 420 Mt. Rushmore Road, Custer, SD 57730. The financial activity of the Custer County Housing and Redevelopment Commission, a component unit of the County, has not been included in the financial statements presented in this report.

The County participates in a cooperative unit, the with six other counties. See detailed note entitled "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 these notes because of the nature of their relationship with the County.

b. Basis of Presentation:

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the County's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category. A fund is considered major if it is the primary operating fund of the County or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

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

Governmental Funds:

General Fund – The General Fund is the general operating fund of the County. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always considered to be a major fund.

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

Road and Bridge Fund – to account for funds credited to the road and bridge fund pursuant to SDCL 32-11-4.2 to be used by the board of county commissioners for grading, constructing, planing, dragging, and maintaining county highways and also for dragging, maintaining, and grading secondary roads. Proper equipment for dragging, grading, and maintaining highways, such as graders, tractors, drags, maintainers, and planers may be purchased from the road and bridge fund. (SDCL 32-11-2 and 32-11-4.2) This is a major fund.

Courthouse Building Fund – authorized by SDCL 7-25-1 to account for the accumulation of a special tax levy not to exceed ninety cents per thousand dollars of taxable valuation annually for the acquisition or construction of a courthouse, office, jail building, county extension buildings, grandstands and bleachers, highway maintenance buildings, or public library. This is a major fund.

The remaining special revenue funds are not considered major funds: 911 Service, Fire Protection, Emergency Management, Domestic Abuse, Public Library, Title III, State Grants, 24/7 Sobriety, and Modernization and Preservation Relief. These funds are reported on the fund financial statements as "Other Governmental Funds."

Fiduciary Funds:

Fiduciary funds consist of the following sub-category and are never considered to be major funds:

Agency Funds – Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency funds are used to account for the accumulation and distribution of property tax revenues and various pass-through funds.

c. 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.

The County's basis of accounting is the modified cash basis, which is a basis of accounting other than USGAAP. Under USGAAP, transactions are recorded in the accounts when revenues are earned and liabilities are incurred. Under the modified cash basis, transactions are recorded when cash is received or disbursed.

Measurement Focus:

In the government-wide Statement of Net Position and Statement of Activities, governmental activities are presented using the economic resources measurement focus, applied within the limitations of the modified cash basis of accounting as defined below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used, applied within the limitations of the modified cash basis of accounting.

Basis of Accounting:

In the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental activities are presented using a modified cash basis of accounting.

The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions. Under the modified cash basis of accounting, the statement of financial position reports only cash and cash equivalents (those investments with terms to maturity of 90 days (three months) or less at the date of acquisition). Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent that cash has been received or disbursed. The acceptable modification to the cash basis of accounting implemented by the County in these financial statements is:

Recording long-term investments in marketable securities (those with maturities more than 90-days (three months) from the date of acquisition) acquired with cash assets at market value rather than cost.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the County applied USGAAP, the fund financial statements for governmental funds would use the modified accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

d. Deposits and Investments:

For the purpose of financial reporting, “cash and cash equivalents” includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less. Investments in open-end mutual fund shares, or similar investments in external investment pools, are also considered to be cash equivalents.

e. Capital Assets:

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

As discussed in Note 1.c. above, the government-wide Statement of Net Position and Statement of Activities and the fund financial statements are presented using a modified cash basis of accounting. The County has not elected to modify their cash basis presentation by recording capital assets arising from cash transactions and depreciating those assets where appropriate so any capital assets owned by the County and the related depreciation are not reported on the financial statements of the County.

f. Long-Term Liabilities:

Long-term liabilities include, but are not limited to, General Obligation Bonds.

As discussed in Note 1.c. above, the government-wide Statement of Net Position and Statement of Activities and the fund financial statements are presented using a modified cash basis of accounting. The County has not elected to modify their cash basis presentation by recording long-term debt arising from cash transactions, so any outstanding indebtedness is not reported on the financial statements of the County. The County does report the principal and interest payments on long-term debt as Debt Service expenditures on the Statement of Revenues, Expenditures and Changes in Fund Balances. On the Statement of Activities, the principal portion of these Debt Service payments are reported within the appropriate expense function while the interest portion is reported as Interest on Long-Term Debt.

The County has presented as Supplementary Information a Schedule of Changes in Long-Term Debt along with related notes that include details of any outstanding Long-Term Debt.

g. Program Revenues:

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

1. 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.
2. Program-specific 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.
3. Program-specific 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.

h. Equity Classifications:

Government-wide Financial Statements:

Equity is classified as Net Position and is displayed in two components:

1. Restricted Net Position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
2. Unrestricted Net Position – All other net position that do not meet the definition of Restricted Net Position.

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and is distinguished between Nonspendable, Restricted, Committed, Assigned, or Unassigned components. Fiduciary fund equity is reported as restricted net position.

i. Application of Net Position:

It is the County's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net positions are available.

j. Fund Balance Classification Policies and Procedures:

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

- Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the County Commissioners.

- 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 County uses *restricted/committed* amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Government would first use *committed, then assigned, and lastly unassigned amounts* of unrestricted fund balance when expenditures are made.

The Government *does not* have a formal minimum fund balance policy.

The purpose of each major special revenue fund and revenue source is listed below:

Major Special Revenue Fund

Road and Bridge Fund

Courthouse Building Fund

Revenue Source

Property Taxes, State and Federal Grants, and
Motor Vehicle Licenses

Property Taxes

A schedule of fund balances is provided as follows:

**CUSTER COUNTY
DISCLOSURE OF FUND BALANCES REPORTED ON BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2019**

	<u>General Fund</u>	<u>Road and Bridge Fund</u>	<u>Courthouse Building Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balances:					
Restricted For:					
Road and Bridge Purposes	\$	\$ 21,232.03	\$	\$	\$ 21,232.03
Courthouse Building Purposes			338,805.49		338,805.49
Fire Protection Purposes				144,779.02	144,779.02
Title III Purposes				185,172.27	185,172.27
Library Purposes				332,811.28	332,811.28
24/7 Sobriety Purposes				50,020.86	50,020.86
Modernization and Preservation Relief Purposes				27,181.64	27,181.64
Assigned To:					
Applied to Next Year's Budget	607,922.97				607,922.97
Capital Outlay Purposes	285,000.00				285,000.00
Sheriff and States Attorney Software Purposes	100,000.00				100,000.00
Fairgrounds Improvement Purposes	243,144.00				243,144.00
Fire Equipment Purposes	570,000.00				570,000.00
Sheriff Vehicle Purposes	135,000.00				135,000.00
Airport Land Purposes	500,000.00				500,000.00
Highway Repair Purposes	180,000.00				180,000.00
Custer Housing Purposes	100,000.00				100,000.00
Various Other Purposes	153,700.00				153,700.00
Road and Bridge Purposes		636,297.75			636,297.75
Courthouse Building Purposes			84,396.93		84,396.93
Fire Protection Purposes				29,002.40	29,002.40
24/7 Sobriety Purposes				4,911.95	4,911.95
Unassigned	1,877,906.76			(904,334.46)	973,572.30
Total Fund Balances	<u><u>\$ 4,752,673.73</u></u>	<u><u>\$ 657,529.78</u></u>	<u><u>\$ 423,202.42</u></u>	<u><u>\$ (130,455.04)</u></u>	<u><u>\$ 5,702,950.89</u></u>

2. VIOLATIONS OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS

The County is prohibited by statute from spending in excess of appropriated amounts at the department level. The following represents the significant overdrafts of the expenditures compared to appropriations:

	Expenditure in Excess of Appropriations	
	Calendar Year 2018	Calendar Year 2019
<u>General Fund:</u>		
General Government:		
Board of County Commissioners	\$ 10,996.57	\$ 3,626.99
Elections	6,735.73	26.35
Financial Administration – Auditor	26,975.07	13,097.81
Financial Administration – Treasurer	2,258.40	
Legal Services – States Attorney	2,981.95	
Other Administration – General Government Building		22,581.02
Other Administration – Director of Equalization		5,549.23
Other Administration – Register of Deeds	7,619.88	
Public Safety:		
Law Enforcement – Sheriff		99,900.19
Law Enforcement – Corner		4,802.82
Law Enforcement – Other Protective and Emergency Services	3,878.37	3,669.95
Public Works:		
Transportation – Airport	55,038.52	7,640.51
Health and Welfare:		
Economic Assistance – Support of Poor	2,922.90	6,519.27
Economic Assistance – Other		95,000.00
Mental Health Services – Mental Illness Board	2,245.23	4,497.57
Culture – Public Library	4,375.60	
Soil Conservation – County Extension	230.38	
Urban Development – Urban and Rural Development	100,000.00	
<u>Road and Bridge Fund:</u>		
Intergovernmental Expenditures	5.00	5.00
<u>Courthouse Building Fund:</u>		
Other Administration – General Government Building		2,150.08
Public Works – Highways, Roads and Bridges		296,971.00
Transportation – Airport	181,703.82	84,271.26
<u>Fire Fund:</u>		
Public Safety – Fire Protection	4,444.61	129,680.42
<u>Emergency Management Fund:</u>		
Protective and Emergency Services – Emergency and Disaster Services	33,008.88	69,125.80
<u>State Grant Fund:</u>		
Other Administration – General Government Building		225,020.00
Protective and Emergency Services – Other Protective and Emergency Services	4,375.00	
Transportation – Airport	303,320.68	
<u>24/7 Sobriety Fund:</u>		
Law Enforcement – Other Law Enforcement		1,066.16
<u>Modernization and Preservation Fund:</u>		
Other Administration – Register of Deeds		6,881.74

The Board of County Commissioners plans to take the following actions to address these violations:

The County will be more diligent in the review of budgets and doing supplements when needed.

3. DEFICIT FUND BALANCES / NET POSITION OF INDIVIDUAL NONMAJOR FUNDS

As of December 31, 2019, the following individual nonmajor funds had deficit fund balance/net position in the amounts shown:

Emergency Management Fund	\$ 134,007.77
Domestic Abuse Fund	\$ 1,261.00
State Grants Fund	\$ 100,260.50
911 Service Fund	\$ 668,805.19

The Board of County Commissioners plans to take the following actions to address the deficit fund balance/deficit net position:

On October 7, 2020 the County Commission approved cash transfers, totaling \$1,161,719.40, to the following funds to assist in correcting the deficit cash balances: Emergency Management Fund - \$234,907.78, Domestic Abuse Fund - \$4,951.00, and 911 Service Fund - \$921,860.62. The County applied for a federal airport grant reimbursement of approximately \$100,000 for the State Grants Fund.

4. DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

The County follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits – The County’s cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 7-20-1, 7-20-1.1, and 7-20-1.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank’s public debt rating which may not be less than “AA” or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments – In general, SDCL 4-5-6 permits County 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.

Custodial Credit Risk – Deposits – The custodial credit risk for deposits is the risk that, in the event of the failure of a depository institution, the County will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The County has no formal deposit policy specific to custodial credit risk. As of December 31, 2019, the County had money market funds that were not collateralized or covered by depository insurance. As a result, the County was exposed to custodial credit risk of \$239,909.81.

Custodial Credit Risk – Investments – The custodial credit risk for investments is the risk that, in the event of the failure of a counterparty to a transaction, the County will not be able to recover deposits or will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County does not have an investment policy for custodial credit risk. At December 31, 2019, investments in the amount of \$3,477,413 were uninsured and unregistered, with the securities held by the counterparty, or by its trust department or agent, but not in the county's name.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. SDCL 4-5-6 permits County funds to be invested in securities which shall mature within eighteen months from the date of purchase or be redeemable at the option of the holder within eighteen months from the date of purchase. The County has no investment policy that would further limit its investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. As of December 31, 2019, the County had investments maturing as follows:

Investment Type	Fair Value	Less than 1	Investment Maturities (in Years)		
			1 to 5	6 to 10	Greater than 10
U.S. Government and Agency Securities	\$ 2,666,671	\$	\$ 2,609,181	\$	\$ 57,490
Municipal Bonds	10,054		5,036	5,018	
Total	\$ 2,676,725	\$ 0	\$ 2,614,217	\$ 5,018	\$ 57,490

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

As of December 31, 2019, the County had the following investments which may have a credit risk exposure:

Account Holder	Description	Maturity Date	Bond Rating	Fair Value
Library Foundation	Taxable Municipal Bonds	2022 to 2027	A+/Aa3, Aaa, A-	\$ 10,053.75
Library Foundation	Exchange Traded and Closed End Funds	N/A	None	31,827.45
Library Foundation	Mutual Funds	N/A	None	234,953.56
	External Investment Pools:			
Custer County	South Dakota FIT			518,657.55
Library Foundation	South Dakota Community Foundation			15,248.68
	Subtotal External Investment Pools			<u>533,906.23</u>
	Total			\$ 810,740.99

The taxable municipal bonds are exposed to the potential risk of default by the issuer. Although the risk of default is rare, it is still a potential credit risk.

For the exchanged traded funds, closed end funds and the mutual funds, the County has not evaluated the holdings of these investments as to the potential credit risk; however, these investments may expose the County to potential credit risk.

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

Concentration of Credit Risk – The County places no limit on the amount that may be invested in any one issuer. The County places no limit on the amount that may be invested in any one issuer. Additionally, there are no single issuer exposures (excluding those issued by or explicitly guaranteed by the U.S. Government, or involving mutual funds or investment pools) that comprise 5% or more of the County's investments.

Fair Value Measurement – The County 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. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the hierarchy below.

The following table summarizes the County investments within the fair value hierarchy as of December 31, 2019:

	Total	Level 1	Level 2	Level 3
Investments by Fair Value Level:				
Debt securities:				
U.S. Treasuries	\$ 874,064	\$	\$ 874,064	\$
U.S. Treasury STRIPS	1,784,875		1,784,875	
Agency Mortgage-Backed Securities	7,732		7,732	
Exchange traded funds	31,827	31,827		
Municipal Bonds	10,054		10,054	
Total debt securities	<u>2,708,552</u>	<u>31,827</u>	<u>2,676,725</u>	<u>0</u>
Total investments by fair value level	<u>2,708,552</u>	<u>\$ 31,827</u>	<u>\$ 2,676,725</u>	<u>\$ 0</u>
Investments Measured at the Net Asset Value (NAV):				
Mutual funds	234,954			
South Dakota FIT	518,658			
South Dakota Community Foundation	15,249			
Total Investments Measured at the NAV	<u>768,861</u>			
Total Investments Measured at Fair Value	<u>\$ 3,477,413</u>			

Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

The County holds shares in investments where the fair value of the investments are measured on a recurring basis using net asset value per share (or its equivalent) of the investment as a practical expedient. The NAV valuations are based on valuations of the underlying securities as determined and reported by the fund.

The following table summarize the fair value, unfunded commitments, and redemption rules of the investments measured at NAV as of December 31, 2019:

Investments Measured at the NAV				
	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Mutual Funds ^(a)	\$ 234,954		Daily	0 days
South Dakota FIT ^(b)	518,658		Daily	0 days
South Dakota Community Foundation ^(c)	15,249		Unknown	Unknown
Investments measured at the net asset value (NAV)	\$ 768,861			

(a) Mutual Funds. This type includes investments in 21 open-end mutual funds that invests in.... The fair value of the investment in this type has been determined using the NAV per share of the investment.

(b) South Dakota FIT. This includes investments in South Dakota FIT which invests in securities issued or guaranteed by the U.S. government, its agencies, and instrumentalities; and repurchase agreements, provided that the underlying collateral consists of obligations of the U.S. government, its agencies, and instrumentalities. The fair value of the investment in this type has been determined using the NAV per share of the investment.

(c) South Dakota Community Foundation. This includes investments in the South Dakota Community Foundation...

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 County's policy is to credit all income from investments to the fund making the investment.

5. PROPERTY TAXES

Property taxes are levied on or before October 1, of the year preceding the start of the fiscal year. They attach as an enforceable lien on property and become due and payable as of the following January 1, the first day of the fiscal year. Taxes are payable in two installments on or before April 30 and October 31 of the fiscal year.

The County is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the County.

6. RESTRICTED NET POSITION

Restricted Net Position for the year ended December 31, 2019 was as follows:

Major Purposes:

Road and Bridge Purposes	\$ 21,232.03
Courthouse Building Purposes	<u>338,805.49</u>

Other Purposes:

Fire Protection Purposes	144,779.02
Title III National Forest Purposes	185,172.27
Library Purposes	332,811.28
24/7 Sobriety Purposes	50,020.86
Modernization and Preservation Relief Purposes	<u>27,181.64</u>

Total Other Purposes	<u>739,965.07</u>
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Total Restricted Net Position	<u>\$ 1,100,002.59</u>
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These balances are restricted due to federal grant and statutory requirements.

7. INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2019 were as follows:

	<u>Transfers To:</u>
	Courthouse Building Fund
<u>Transfers From:</u>	<u>Fund</u>

Major Funds:

General Fund	\$ 75,000.00
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The County transferred to the Courthouse Building Fund to help pay for an addition to the Search and Rescue building.

8. TAX ABATEMENTS

The Municipalities of Custer and Hermosa have created tax increment districts under the authority granted by South Dakota Codified Law section 11-9. The tax increment districts were created to stimulate and develop the general economic welfare and prosperity of the Municipality through the promotion and advancement of industrial, commercial, manufacturing, agricultural, or natural resources; and the improvement of the area will likely enhance significantly the value of substantially all of the other real property in the tax increment district.

The county, municipal, and other local general property taxes levied on all taxable property within a tax incremental district on the increase in assessed value of the taxable property is allocated to pay for the cost of improvements in the tax increment district. The tax increments are allocated until all cost of the tax increment district project has been repaid; however, it cannot exceed 20 years.

Municipality of Custer:

The Municipality of Custer has four (4) active tax increments districts. Because the general property taxes on tax increment districts are allocated to the districts, the taxes are not available to Custer County during the life of the tax increment district.

The amount of general property taxes levied for these four tax increment districts during the calendar year ended December 31, 2019 was \$266,911.36. Based on the percentage of Custer County's property tax levy in relation to the total levy, the amount of general property taxes not available to Custer County was approximately \$45,752.74.

The amount of general property taxes levied for these four tax increment districts during the calendar year ended December 31, 2018 was \$262,427.89. Based on the percentage of Custer County's property tax levy in relation to the total levy, the amount of general property taxes not available to Custer County was approximately \$44,915.88.

Municipality of Hermosa:

The Municipality of Hermosa has one (1) active tax increment districts. Because the general property taxes on tax increment district are allocated to the district, the taxes are not available to Custer County during the life of the tax increment district.

The amount of general property taxes levied for this one tax increment district during the calendar year ended December 31, 2019 was \$62,750.65. Based on the percentage of Custer County's property tax levy in relation to the total levy, the amount of general property taxes not available to Custer County was approximately \$11,818.73.

The amount of general property taxes levied for this one tax increment district during the calendar year ended December 31, 2018 was \$56,757.18. Based on the percentage of Custer County's property tax levy in relation to the total levy, the amount of general property taxes not available to Custer County was approximately \$10,821.33.

9. PENSION PLAN

Plan Information:

All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer hybrid defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://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 three different classes of employees, Class A general members, Class B public safety and judicial members, and Class C Cement Plant Retirement Fund members.

Members that were hired before July 1, 2017, are Foundation members. Class A Foundation members and Class B Foundation members who retire after age 65 with three years of contributory service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A Foundation members where the sum of age and credited service is equal to or greater than 85 or after age 55 for Class B Foundation judicial members where the sum of age and credited service is equal to or greater than 80. Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B Foundation public safety members where the sum of age and

credited service is equal to or greater than 75. All Foundation retirements that do not meet the above criteria may be payable at a reduced level.

Members that were hired on/after July 1, 2017, are Generational members. Class A Generational members and Class B Generational judicial members who retire after age 67 with three years of contributory service are entitled to an unreduced annual retirement benefit. Class B Generational public safety members can retire with an unreduced annual retirement benefit after age 57 with three years of contributory service. At retirement, married Generational members may elect a single-life benefit, a 60 percent joint and survivor benefit, or a 100 percent joint and survivor benefit. All Generational retirement benefits that do not meet the above criteria may be payable at a reduced level. Generational members will also have a variable retirement account (VRA) established, in which they will receive up to 1.5 percent of compensation funded by part of the employer contribution. VRAs will receive investment earnings based on investment returns.

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

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

All benefits except those depending on the Member's Accumulated Contributions are annually increased by 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 County's share of contributions to the SDRS for the calendar years ended December 31, 2019, 2018, and 2017, equal to the required contributions each year, were as follows:

<u>Year</u>	<u>Amount</u>
2019	\$ 179,729.69
2018	\$ 164,415.46
2017	\$ 161,482.46

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

At June 30, 2019, SDRS is 100.09% funded and accordingly has a net pension asset. The proportionate share of the components of the net pension asset of South Dakota Retirement System, for the County as of this measurement period ending June 30, 2019 are as follows:

Proportionate share of total pension liability	\$ 16,758,035.72
Less proportionate share of net position restricted for pension benefits	<u>16,772,285.95</u>
Proportionate share of net pension asset	<u>\$ (14,250.23)</u>

The net pension asset was measured as of June 30, 2019 and the total pension liability used to calculate the net pension asset was based on a projection of the County's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2019, the County's proportion was 0.1344709%, which is an increase of 0.0057621% from its proportion measured as of June 30, 2018.

Actuarial Assumptions:

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

Inflation	2.25 percent
Salary Increases	Graded by years of service, from 6.50% at entry to 3.00% after 25 years of service
Discount Rate	6.50% net of plan investment expense
Future COLAs	1.88%

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

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

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2019 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	4.7%
Fixed Income	30.0%	1.7%
Real Estate	10.0%	4.3%
Cash	2.0%	0.9%
Total	100%	

Discount Rate:

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

the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset.

Sensitivity of liability (asset) to changes in the discount rate:

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

	1% Decrease	Current Discount Rate	1% Increase
County's proportionate share of the net pension liability (asset)	\$ 2,365,259.80	\$ (14,250.23)	\$ (1,953,120.94)

Pension Plan Fiduciary Net Position:

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

10. JOINT VENTURES

The County participates in a joint venture, known as the Western South Dakota Juvenile Services Center Joint Powers Agreement formed for the purpose of providing juvenile detention services to member counties.

The members of the joint venture and their relative percentage of participation are as follows:

Pennington County	66%
Lawrence County	16%
Butte County	7%
Fall River County	5%
Custer County	5%
Harding County	1%

The joint venture's governing board is composed of one county commissioner from each county. The board is responsible for adopting the budget and setting service fees at a level adequate to fund the adopted budget.

The County retains no equity in the net position of the joint venture but does have a responsibility to fund deficits of the joint venture in proportion to the relative participation described above.

Separate financial statements for this joint venture are available from the Pennington County Auditor's Office.

At December 31, 2019, this joint venture had no assets, as the joint venture operates on a breakeven basis, and no long-term liabilities, as all debt was paid off in May of 2013.

11. SIGNIFICANT CONTINGENCIES – LITIGATION

At December 31, 2019, the County was involved in two lawsuits. No determination can be made at this time regarding the potential outcome of these lawsuits. However, as discussed in the Risk Management note, the County has liability coverage for itself and its employees with South Dakota Public Assurance Alliance. Therefore, no material effects are anticipated to the County as a result of the potential outcome of these lawsuits.

12. RISK MANAGEMENT

The County 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 period ended December 31, 2019, the County managed its risks as follows:

Employee Health Insurance:

The County joined the South Dakota School District Health Benefits Fund. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The County pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members.

The County 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 County joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The County's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the County. The County pays a Members' Annual Operating Contribution, to provide liability coverage detailed below, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The County pays an annual premium to the pool to provide coverage for: general liability, property damage, officials liability, law enforcement liability, automobile liability, automobile damage, earthquake and flood.

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

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

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

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

As of December 31, 2019, the County's balance available to be refunded per the SDPAA was \$224,710, which was an increase of \$27,898 from the previous year.

The County carries a \$2,000 deductible for law enforcement liability, \$1,000 - \$5,000 deductible for officials liability, \$250.00 deductible for vehicle comprehensive coverage, \$500.00 deductible for vehicle collision coverage, \$2,500.00 deductible for property damage (real, personal, miscellaneous and electronic data processing), \$10,000 for earthquake and flood, and \$1,500.00 deductible for boiler and equipment breakdown.

The County 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 during the past three years.

Worker's Compensation:

The County joined the South Dakota Municipal League Worker's Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of 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. The County's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The County pays an annual premium, to provide worker's compensation coverage for its employees, under a self-funded program and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to statutory limits in addition to a separate combined employer liability limit of \$2,000,000 per incident.

The County 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 County has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

During the year two years ended December 31, 2019, two claims were filed for unemployment benefits. These claims resulted in the payment of benefits in the amount of \$3,002.68. At December 31, 2019, no claims had been filed and were outstanding.

SUPPLEMENTARY INFORMATION
CUSTER COUNTY
SCHEDULE OF THE COUNTY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)

South Dakota Retirement System

*Last 10 Years

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
County's proportion of the net pension liability (asset)	0.1344709%	0.1287088%	0.1343345%	0.1410998%	0.1381759%	0.1410756%
County's proportionate share of net pension liability (asset)	\$ (14,250.23)	\$ (3,001.79)	\$ (12,190.99)	\$ 476,621.26	\$ (586,043.47)	\$ (1,016,392.00)
County's covered-employee payroll	\$ 2,688,825.07	\$ 2,531,973.02	\$ 2,558,057.18	\$ 2,506,543.08	\$ 2,355,270.30	\$ 2,300,876.12
County's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	(0.53%)	(0.12%)	(0.48%)	19.02%	(24.88%)	(44.17%)
Plan fiduciary net position as a percentage of the total pension liability (asset)	100.09%	100.02%	100.10%	96.89%	104.10%	107.30%

* The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability (asset) which is 6/30. Until a full 10-year trend is compiled, the County will present information for those years for which information is available.

CUSTER COUNTY
NOTES TO THE SUPPLEMENTARY INFORMATION
Schedule of the Proportionate Share of the Net Pension Liability (Asset)

Changes of benefit terms:

No significant changes.

Changes of assumptions:

Legislation enacted in 2017 modified the SDRS COLA. For COLAs first applicable in 2018, the SDRS COLA will equal the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0.5% 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 a FVFR equal to or exceeding 100%. That condition existed as of June 30, 2018 and exists again this year as of June 30, 2019. Future COLAs are assumed to equal the current restricted maximum COLA which was 2.03% as of June 30, 2018 and is 1.88% as of June 30, 2019.

The changes in actuarial assumptions decreased the Actuarial Accrued Liability by 1.5% of the Actuarial Accrued Liability based on the 2.03% COLA, reflecting the current and assumed future restricted maximum COLA of 1.88%.

Actuarial assumptions are reviewed in depth periodically, with the next experience analysis anticipated before the June 30, 2022 Actuarial Valuation and any recommended changes anticipated to be first implemented in the June 30, 2022 Actuarial Valuation.

**SUPPLEMENTARY INFORMATION
CUSTER COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Two Years Ended December 31, 2019**

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures 2019	Total Federal Expenditures 2018
Schools and Roads Cluster:					
US Department of Agriculture - Direct Programs: Schools and Roads - Grants to Counties (Note 3) (Note 4)	10.666		\$	\$ 1,361.80	\$ 2,061.46
Subtotal US Department of Agriculture - Direct Programs			0.00	1,361.80	2,061.46
US Department of Agriculture Pass-Through Programs From: SD State Auditor, Schools and Roads - Grants to States (Note 3) (Note 4)	10.665		395,893.30	379,411.53	412,375.07
Subtotal US Department of Agriculture - Pass-Through Programs			395,893.30	379,411.53	412,375.07
Total for US Department of Agriculture - Schools and Roads Cluster (Note 4)			395,893.30	380,773.33	414,436.53
US Department of Interior - Direct Programs: Bureau of Land Management, Payments in Lieu of Taxes (Note 3) (Note 4)	15.226			894,514.00	955,991.00
Total US Department of the Interior			0.00	894,514.00	955,991.00
US Department of Justice - Direct Programs: Public Safety Partnership and Community Policing Grants	16.710			1,844.85	
US Department of Justice - Pass-Through Programs: SD Associations of County Commissioners, Juvenile Justice and Delinquency Prevention - Allocation to States	16.540			846.16	
Total US Department of Justice			0.00	2,691.01	0.00
US Department of Transportation - Pass-Through Programs: SD Department of Transportation, Airport Improvement Project	20.106	3-46-0011-013-2017, 3-46-0011-014-2018		401,410.04	77,318.47
Total US Department of Transportation			0.00	401,410.04	77,318.47
US General Services Administration - Pass-Through Programs: SD Federal Property Agency, Donation of Federal Surplus Personal Property (Note 5)	39.003			61.87	3,095.00
Total US General Services Administration			0.00	61.87	3,095.00
US Department of Homeland Security - Pass-Through Programs: SD Department of Public Safety - Office of Emergency Management, Hazard Mitigation Grant Emergency Management Performance Grants Homeland Security Grant Program	97.039 97.042 97.067			41,022.84 62,986.21	18,375.00 22,986.06 34,186.80
Total US Department of Homeland Security			0.00	104,009.05	75,547.86
GRAND TOTAL			\$ 395,893.30	\$ 1,783,459.30	\$ 1,526,388.86

Note 1: Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the County under programs of the federal government for the year ended December 31, 2019. The information in this Schedule is presented in accordance with the 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). Because the Schedule presents only a selected portion of the operations of the County, it is not intended to and does not present the financial position, changes in net position, or cash flows of the County.

Note 2: Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The County does not claim any indirect cost on any of its federal awards.

Note 3: Federal Reimbursement

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

Note 4: Major Federal Financial Assistance Program

This represents a Major Federal Financial Assistance Program.

Note 5: Federal Surplus Property

The amount reported represents 23.3% of the original acquisition cost of the federal surplus property received by the County.

**SUPPLEMENTARY INFORMATION
CUSTER COUNTY
SCHEDULE OF CHANGES IN LONG-TERM DEBT
For the Two Years Ended December 31, 2019**

	Long-Term Debt January 1, 2018	Add New Debt	Less Debt Retired	Long-Term Debt December 31, 2019
Governmental Long-Term Debt:				
Bonds Payable	\$ 4,311,118.08	\$	\$ 235,290.11	\$ 4,075,827.97

Note 1 - Long-Term Debt:

Debt payable at December 31, 2019 is comprised of the following:

General Obligation Bonds:

General Obligation Bond Series 2010 (Build America Direct Pay), Final Maturity - August 2049, Interest Rate - 4%, Paid from Courthouse Building Fund	\$ 3,141,490.26
General Obligation Bond Series 2010B (Build America Direct Pay), Final Maturity - December 2019, Interest Rate - 3.75%, Paid from Courthouse Building Fund	\$ 934,337.71