

CUSTER SCHOOL DISTRICT NO. 16-1

INDEPENDENT AUDITOR'S REPORTS,
FINANCIAL STATEMENTS, AND
SUPPLEMENTARY INFORMATION

JUNE 30, 2020

CASEY  **PETERSON**
Leading the Way.

RAPID CITY, SOUTH DAKOTA
GILLETTE, WYOMING

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Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Custer School District No. 16-1, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Custer School District No. 16-1's basic financial statements and have issued our report thereon dated February 24, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Custer School District No. 16-1'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 Custer School District No. 16-1's internal control. Accordingly, we do not express an opinion on the effectiveness of Custer School District No. 16-1's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control described in the accompanying schedule of findings and question costs as item 2020-001 that we consider to be a material weakness.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether Custer School District No. 16-1's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Custer School District No. 16-1's Response to Findings

Custer School District No. 16-1's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Custer School District No. 16-1's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 Custer School District No. 16-1's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Custer School District No. 16-1's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



Casey Peterson, Ltd.

Rapid City, South Dakota

February 24, 2021

Independent Auditor's Report on Compliance for Each Major Program and Report on Internal Control over Compliance Required by the Uniform Guidance

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

Report on Compliance for Each Major Federal Program

We have audited Custer School District No. 16-1's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Custer School District No. 16-1's major federal programs for the year ended June 30, 2020. Custer School District No. 16-1's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Custer School District No. 16-1'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 Custer School District No. 16-1'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 of Custer School District No. 16-1's compliance.

Opinion on Each Major Federal Program

In our opinion, Custer School District No. 16-1 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.



Report on Internal Control over Compliance

Management of Custer School District No. 16-1 is responsible for establishing and maintaining effective 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 Custer School District No. 16-1'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 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.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



Casey Peterson, Ltd.

Rapid City, South Dakota
February 24, 2021

Custer School District No. 16-1
Schedule of Findings and Questioned Costs
June 30, 2020

SUMMARY OF THE INDEPENDENT AUDITOR'S RESULTS

- a. The Independent Auditor's Report expressed unmodified opinions on the financial statements of Custer School District No. 16-1.
- b. The Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* disclosed a material weakness in internal control over financial reporting.
- c. No instances of noncompliance material to the financial statements of the District which would be required to be reported in accordance with *Governmental Auditing Standards* were noted during the audit.
- d. The Independent Auditor's Report on Compliance for Each Major Program and Report on Internal Control Over Compliance Required by the Uniform Guidance for the District expressed an unmodified opinion on all major programs.
- e. No material weaknesses in internal control related to major federal award programs were reported in the Independent Auditor's Report on Compliance for Each Major Program and Report on Internal Control Over Compliance Required by the Uniform Guidance.
- f. No audit findings that are required to be reported in accordance with 2 CFR section 200.516(a) are reported in this Schedule.
- g. The federal awards tested as major programs were:
 - Impact Aid, CFDA #84.041
 - Special Education Cluster (IDEA) #84.027, 84.173
- h. The dollar threshold used to distinguish between Type A and Type B federal award programs was \$750,000.
- i. Custer School District No. 16-1 did not qualify as a low-risk auditee.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

There were no findings reported for the current year.

FINDINGS - FINANCIAL STATEMENTS AUDIT

Material Weakness

Internal Control over Financial Reporting

2020-001 *Condition:* There is a lack of segregation of duties within the Business Office related to the oversight of the year-end reconciliation and adjustment process.

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

Cause: This condition exists due to the limited number of staff within the finance function of the District. This issue is common in a District of this size.

Effect: The possibility of fraud or errors occurring and not being detected or corrected is present.

Repeat of Prior Year Finding: This issue has been reported as a finding since 2012.

Custer School District No. 16-1
Schedule of Findings and Questioned Costs
June 30, 2020

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

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

Custer School District

527 Montgomery Street
Custer, SD 57730

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



Mark Naugle
Superintendent of Schools

Lisa Fluck
Business Manager

PRIOR FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

No prior year audit findings were reported.

PRIOR FINDINGS AND QUESTIONED COSTS - FINANCIAL STATEMENTS AUDIT

Material Weakness

Internal Control over Financial Reporting

2019-001 *Condition:* There is a lack of segregation of duties within the Business Office related to the oversight of the year-end reconciliation and adjustment process.

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

Auditor's Recommendation: It is the responsibility of management and those charged with governance to make the decision about whether to accept the degree of risk associated with this condition. Management may train finance office personnel to perform additional responsibilities such that the Business Manager can provide oversight or management could involve Board members in the year-end close process.

Current Status: This finding has been reported since 2012.

Custer School District

527 Montgomery Street
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Mark Naugle
Superintendent of Schools

Lisa Fluck
Business Manager

CORRECTIVE ACTION PLAN (UNAUDITED)

Custer School District No. 16-1 respectfully submits the following corrective action plan for the year ended June 30, 2020.

Name and address of independent public accounting firm:

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

The findings from the 2020 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS - FEDERAL AWARDS AUDIT

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

FINDINGS - FINANCIAL STATEMENTS AUDIT

Material Weakness

Internal Control over Financial Reporting

2020-001 *Condition:* There is a lack of segregation of duties within the Business Office related to the oversight of the year-end reconciliation and adjustment process.

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

Repeat of Prior Year Finding: This finding has been reported since 2012.

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

Management's Response: This is a common condition for schools of similar size and management feels comfortable with this practice. The District will implement suggested controls wherever cost-effective for the District.

If there are questions regarding this plan, please call Lisa Fluck, Business Manager at 605-673-3154.

Sincerely yours,

Lisa Fluck, Business Manager
Custer School District No. 16-1
Custer, South Dakota

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Custer School District No. 16-1, as of and for the year ended June 30, 2020 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Custer School District No. 16-1, as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, and the budgetary comparison schedules, the Schedule of Changes in Total OPEB Liability and Related Ratios, the Schedule of the District's Proportionate Share of the Net Pension Liability (Asset), the Schedule of Pension Contributions, and the Notes to the Required Supplementary Information on pages 13 - 21 and 70 - 79 presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Custer School District No. 16-1's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or 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 Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Corrective Action Plan and list of School District Officials on pages 8 and 83, respectively, have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2021 on our consideration of Custer School District No. 16-1's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and on compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Custer School District No. 16-1's internal control over financial reporting and compliance.

Casey Peterson, LTD.

Casey Peterson, Ltd.

Rapid City, South Dakota

February 24, 2021

Custer School District No. 16-1
Management's Discussion and Analysis (Unaudited)
June 30, 2020

This section of Custer School District No. 16-1's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2020. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- During the 19-20 fiscal year, the District's revenues generated from taxes and other revenues of the governmental and business-type programs were \$358,359 more than the \$12,856,167 of governmental and business-type expenses.
- In FY 19-20, the total costs of the District's programs were almost 9.6% more than the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

Custer School District No. 16-1
Management's Discussion and Analysis (Unaudited)
June 30, 2020

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

Figure A-1

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

Custer School District No. 16-1
Management's Discussion and Analysis (Unaudited)
June 30, 2020

Government-wide Statements

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

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

Custer School District No. 16-1
Management's Discussion and Analysis (Unaudited)
June 30, 2020

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's combined net position increased as follows:

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

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2019	2020	2019	2020	2019	2020	2019 - 2020
Current and Other Assets	\$ 19,313,393	\$ 26,358,526	\$ 57,232	\$ 142,425	\$ 19,370,625	\$ 26,500,951	36.81%
Capital Assets (Net of Depreciation)	18,885,223	19,409,725	36,634	28,039	18,921,857	19,437,764	2.73%
Total Assets	38,198,616	45,768,251	93,866	170,464	38,292,482	45,938,715	19.97%
Total Deferred Outflows of Resources	1,939,910	1,292,696	-	-	1,939,910	1,292,696	-33.36%
Long-Term Liabilities Outstanding	15,320,469	20,845,816	-	-	15,320,469	20,845,816	36.07%
Other Liabilities	732,281	1,324,977	10,543	73,770	742,824	1,398,747	88.30%
Total Liabilities	16,052,750	22,170,793	10,543	73,770	16,063,293	22,244,563	38.48%
Total Deferred Inflows of Resources	4,766,093	5,225,483	-	-	4,766,093	5,225,483	9.64%
Net Investment in Capital Assets	5,420,309	9,245,859	36,634	28,039	5,456,943	9,273,898	69.95%
Restricted	9,356,939	5,056,073	-	-	9,356,939	5,056,073	-45.96%
Unrestricted	4,542,435	5,362,739	46,689	68,655	4,589,124	5,431,394	18.35%
Total Net Position	\$ 19,319,683	\$ 19,664,671	\$ 83,323	\$ 96,694	\$ 19,403,006	\$ 19,761,365	1.85%

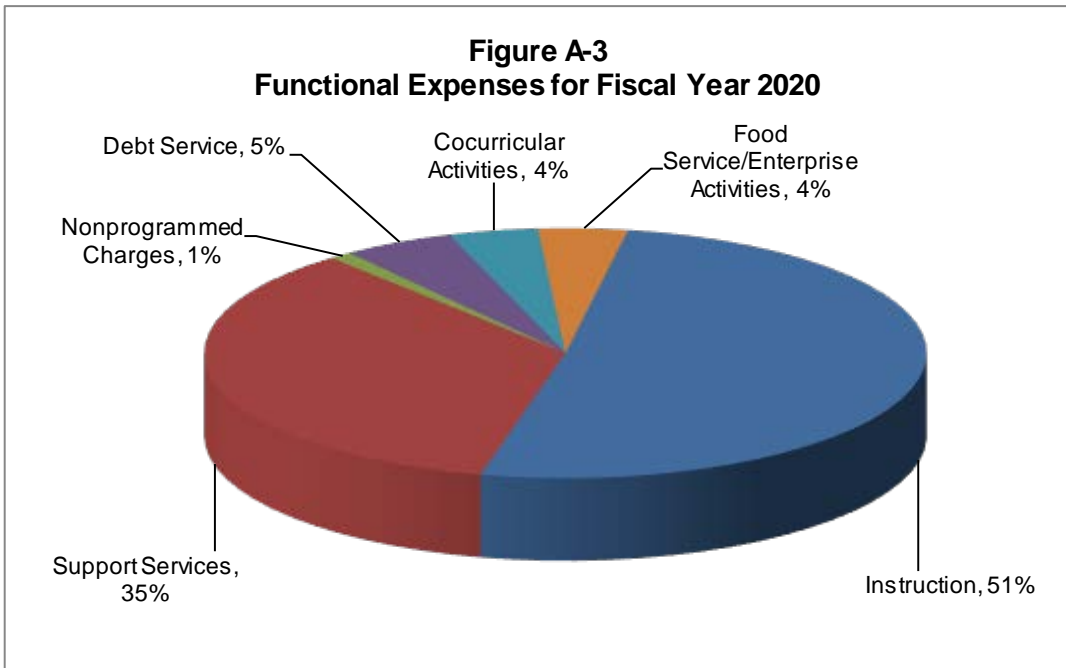
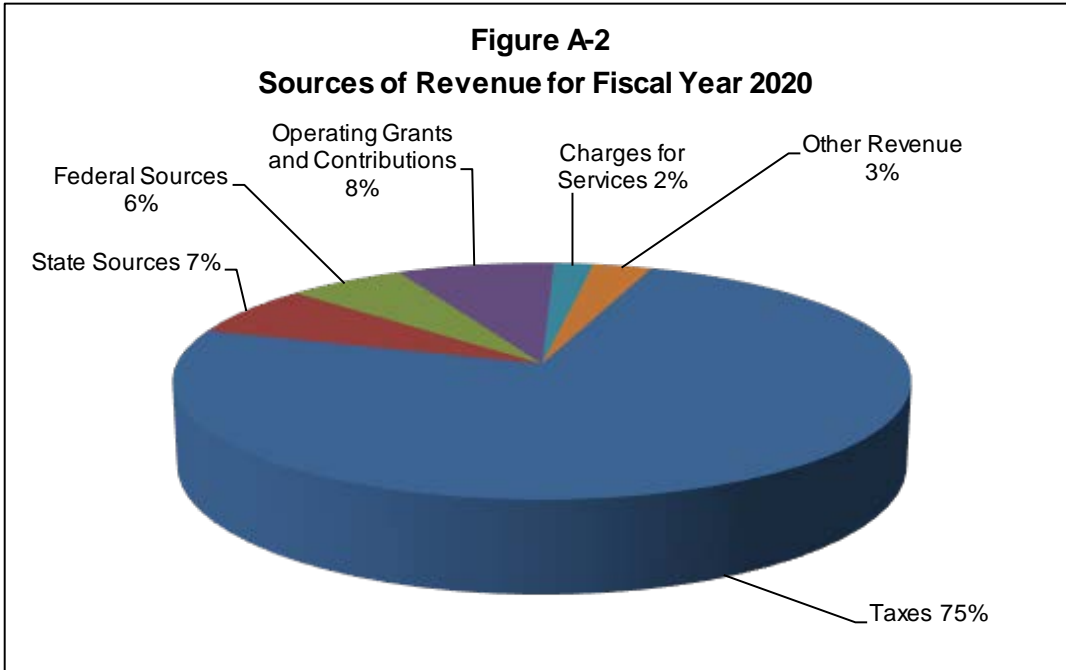
The Statement of Net Position reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components - the amount due within one year and the amount due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

**Custer School District No. 16-1
Management's Discussion and Analysis (Unaudited)
June 30, 2020**

Changes in Net Position

The District's revenues totaled \$13,214,526. Approximately 75% of the District's revenue came from property and other taxes with approximately 6% from federal sources and 8% coming from operating and capital grants and contributions (see Figure A-2).

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



Custer School District No. 16-1
Management's Discussion and Analysis (Unaudited)
June 30, 2020

GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES

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

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

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2019	2020	2019	2020	2019	2020	2019 - 2020
Revenues							
Program Revenues:							
Charges for Services	\$ 58,193	\$ 66,145	\$ 230,441	\$ 184,610	\$ 288,634	\$ 250,755	-13.12%
Operating Grants and Contributions	573,840	665,032	209,310	348,519	783,150	1,013,551	29.42%
Capital Grants and Contributions	55,248	30,299	4,200	-	59,448	30,299	-49.03%
General Revenues:							
Taxes	9,162,742	9,795,474	-	-	9,162,742	9,795,474	6.91%
Revenue State Sources	1,299,049	898,779	-	-	1,299,049	898,779	-30.81%
Revenue Federal Sources	902,378	805,516	-	-	902,378	805,516	-10.73%
Revenue Intermediate Sources	60,364	76,422	-	-	60,364	76,422	26.60%
Unrestricted Investment Earnings	182,646	212,719	-	-	182,646	212,719	16.47%
Other General Revenues	51,140	30,200	-	-	51,140	30,200	-40.95%
Transfers	3	-	-	-	3	-	0.00%
Gain (Loss) on Sale of Capital Assets	8,130	100,811	-	-	8,130	100,811	1139.99%
Total Revenues	<u>12,353,733</u>	<u>12,681,397</u>	<u>443,951</u>	<u>533,129</u>	<u>12,797,684</u>	<u>13,214,526</u>	3.26%
Expenses							
Instruction	5,847,227	6,552,197	-	-	5,847,227	6,552,197	12.06%
Support Services	4,299,982	4,456,676	-	-	4,299,982	4,456,676	3.64%
Nonprogrammed Charges	71,292	81,072	-	-	71,292	81,072	13.72%
Debt Service	484,485	665,423	-	-	484,485	665,423	37.35%
Cocurricular Activities	565,466	569,760	-	-	565,466	569,760	0.76%
Community Services	10,780	11,281	-	-	10,780	11,281	4.65%
Other Business Type Funds	-	-	226	251	226	251	11.06%
Food Service	-	-	453,052	519,507	453,052	519,507	14.67%
Total Expenses	<u>11,279,232</u>	<u>12,336,409</u>	<u>453,278</u>	<u>519,758</u>	<u>11,732,510</u>	<u>12,856,167</u>	9.58%
Increase (Decrease) in Net Position	1,074,501	344,988	(9,327)	13,371	1,065,174	358,359	-66.36%
Net Position - Beginning	<u>18,245,182</u>	<u>19,319,683</u>	<u>92,650</u>	<u>83,323</u>	<u>18,337,832</u>	<u>19,403,006</u>	5.81%
Net Position - Ending	<u>\$ 19,319,683</u>	<u>\$ 19,664,671</u>	<u>\$ 83,323</u>	<u>\$ 96,694</u>	<u>\$ 19,403,006</u>	<u>\$ 19,761,365</u>	1.85%

**Custer School District No. 16-1
Management's Discussion and Analysis (Unaudited)
June 30, 2020**

GOVERNMENTAL ACTIVITIES

Revenues of the District's governmental activities increased by approximately 2.65% to \$12,681,397 and expenses increased by approximately 9.37% to \$12,336,409.

BUSINESS-TYPE ACTIVITIES

Revenues of the District's business-type activities (Food Service and Other Enterprise) increased by approximately 20.09% to \$533,129 and expenses increased by approximately 14.67% to \$519,758.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The General Fund fund balance decreased for the year ended June 30, 2020. This was due to expenses increasing more than revenues. The Special Education fund balance showed an increase from the prior year due to an increase in local property tax revenue. The Capital Outlay fund balance was higher at year-end due to fewer capital purchases.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were no significant budget changes or budget variances for the year.

CAPITAL ASSET ADMINISTRATION

By the end of FY 2020, the District had invested \$19,437,764 (net of depreciation) in a broad range of capital assets including land, buildings, various machinery, and equipment. (See Table A-3) This amount represents a net increase (including additions and deductions) of \$515,907. The capitalization threshold remains at \$25,000 for all improvements, \$50,000 for all buildings, and \$5,000 for all equipment for governmental activities, and \$1,000 for business-type activities.

Table A-3
Custer School District No. 16-1
Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Total Dollar Change	Total Percentage Change
	2019	2020	2019	2020	2019 - 2020	2019 - 2020
Land	\$ 243,323	\$ 388,458	\$ -	\$ -	\$ 145,135	59.65%
Buildings	17,766,403	17,559,092	-	-	(207,311)	-1.17%
Improvements	134,236	73,856	-	-	(60,380)	-44.98%
Construction in Progress	-	679,526	-	-	679,526	100.00%
Equipment	741,261	708,793	36,634	28,039	(41,063)	-5.28%
Total Capital Assets (Net)	\$ 18,885,223	\$ 19,409,725	\$ 36,634	\$ 28,039	\$ 515,907	2.73%

This year's capital asset purchases were for vehicles, electronic sign, laser projector, access control system, buildings, and land. The District also began construction on a school in Hermosa which will be recorded in the Construction in Progress (CIP) account until completion of the construction phases.

**Custer School District No. 16-1
Management's Discussion and Analysis (Unaudited)
June 30, 2020**

LONG-TERM DEBT

At year-end, the District had \$20,845,816 in Capital Outlay Certificates and other long-term obligations. This is an increase of 36.07% as shown in Table A-4 below.

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

	Governmental Activities		Business-type Activities		Total Dollar Change	Total Percentage Change
	2019	2020	2019	2020	2019 - 2020	2019 - 2020
Capital Outlay Certificates	\$ 14,475,000	\$ 19,145,000	\$ -	\$ -	\$ 4,670,000	32.26%
(Discount)Premiums	(10,086)	910,412	-	-	920,498	-9126.49%
Energy Efficient Loan	332,340	299,105	-	-	(33,235)	-10.00%
Early Retirement Payable	198,693	139,551	-	-	(59,142)	-29.77%
OPEB	27,229	27,229	-	-	-	0.00%
Compensated Absences	297,293	324,519	-	-	27,226	9.16%
Total Outstanding Debt and Obligations	\$ 15,320,469	\$ 20,845,816	\$ -	\$ -	\$ 5,525,347	36.07%

The District is liable for the accrued sick leave payable to all staff. The accrual leave liability is reported as compensated absences in the above schedule and with the financial statements.

The District made debt service principal and interest payments on Capital Outlay Certificates in the amount of \$583,235 for principal and \$465,402 for interest. The District refinanced two Capital Outlay Certificates.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

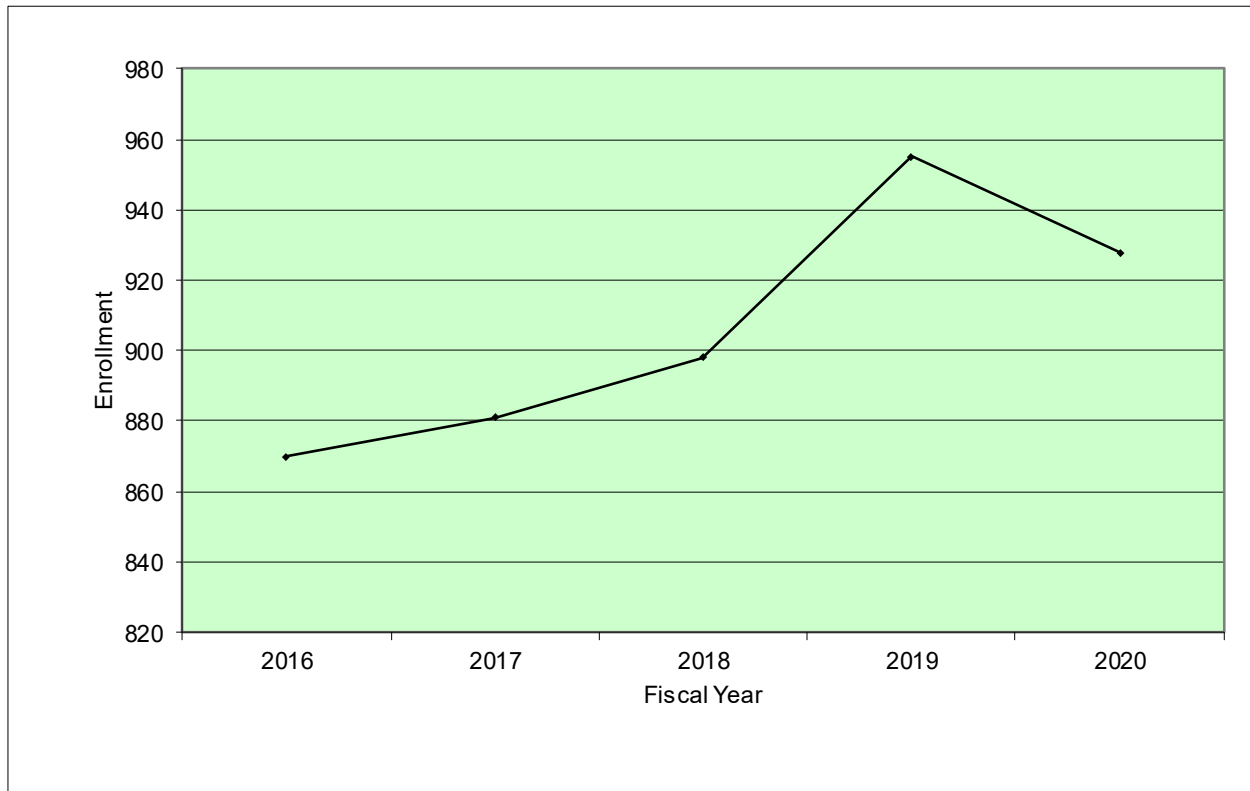
The District has seen an increase in property taxes and in enrollment in recent years increasing revenues. However, the District's enrollment fluctuates throughout the year making it difficult to budget revenues from year to year.

Custer School District No. 16-1
Management's Discussion and Analysis (Unaudited)
June 30, 2020

One of the primary sources of revenue to the District is based on a per-student allocation received from the State of South Dakota. Beginning in FY17, a significant change to the State formula has had a negative impact on the District. The District's portion of state aid has decreased in recent years, and the District expects to be outside of the formula again in FY22 with the main source of revenue being local property taxes. The capital outlay levy has also been modified to limit future growth in collections which may impair the District's ability to fund future capital projects.

Below is a graph that shows the trends in the District's average daily attendance for the last five years.

Average Daily Attendance by Fiscal Year



CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

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BASIC FINANCIAL STATEMENTS

Custer School District No. 16-1
Statement of Net Position
June 30, 2020

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 8,839,823	\$ 86,604	\$ 8,926,427
Permanent Incidental Account	8,000	-	8,000
Taxes Receivable	4,376,732	-	4,376,732
Accounts Receivable	158	-	158
Due from Other Governments	501,308	49,052	550,360
Inventories	-	6,769	6,769
Capital Assets:			
Land	388,458	-	388,458
Construction in Progress	679,526	-	679,526
Buildings	20,611,719	-	20,611,719
Improvements	1,153,087	-	1,153,087
Equipment	1,967,373	176,084	2,143,457
Less: Accumulated Depreciation	<u>(5,390,438)</u>	<u>(148,045)</u>	<u>(5,538,483)</u>
Total Capital Assets, Net of Depreciation	<u>19,409,725</u>	<u>28,039</u>	<u>19,437,764</u>
Restricted Assets:			
Net Pension Asset	25,194	-	25,194
Cash Restricted for Construction	10,504,391	-	10,504,391
Investments Restricted for Debt Service - Sinking Fund	<u>2,102,920</u>	<u>-</u>	<u>2,102,920</u>
Total Assets	<u>45,768,251</u>	<u>170,464</u>	<u>45,938,715</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension-related Deferred Outflows	<u>1,292,696</u>	<u>-</u>	<u>1,292,696</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>1,292,696</u>	<u>-</u>	<u>1,292,696</u>
LIABILITIES			
Accounts Payable	506,851	50,953	557,804
Other Current Liabilities	818,126	2,023	820,149
Unearned Revenue	-	20,794	20,794
Long-term Liabilities:			
Due Within One Year	1,153,597	-	1,153,597
Due in More than One Year	<u>19,692,219</u>	<u>-</u>	<u>19,692,219</u>
Total Liabilities	<u>22,170,793</u>	<u>73,770</u>	<u>22,244,563</u>

The accompanying notes are an integral part of this statement.

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
DEFERRED INFLOWS OF RESOURCES			
Property Taxes Levied for Future Periods	4,692,044	-	4,692,044
Pension-related Deferred Inflows	<u>533,439</u>	-	<u>533,439</u>
Total Deferred Inflows of Resources	<u>5,225,483</u>	<u>-</u>	<u>5,225,483</u>
NET POSITION			
Net Investment in Capital Assets	9,245,859	28,039	9,273,898
Restricted for:			
Capital Outlay	1,319,428	-	1,319,428
Special Education	849,274	-	849,274
Debt Service	2,102,920	-	2,102,920
Proportionate Share of Net Pension	784,451	-	784,451
Unrestricted	<u>5,362,739</u>	<u>68,655</u>	<u>5,431,394</u>
TOTAL NET POSITION	<u>\$ 19,664,671</u>	<u>\$ 96,694</u>	<u>\$ 19,761,365</u>

The accompanying notes are an integral part of this statement.

Custer School District No. 16-1
Statement of Activities
For the Year Ended June 30, 2020

Functions/Programs	Expenses	Charges for Services
GOVERNMENTAL ACTIVITIES		
Instruction	6,552,197	\$ -
Support Services	4,456,676	36,804
Community Services	11,281	3,413
Cocurricular Activities	569,760	25,928
Nonprogrammed Charges	81,072	-
Interest on Long-term Debt *	665,423	-
Total Governmental Activities	12,336,409	66,145
BUSINESS-TYPE ACTIVITIES		
Food Service	519,507	183,627
Other Enterprise Funds	251	983
Total Business-type Activities	519,758	184,610
Total Primary Government	\$ 12,856,167	\$ 250,755

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

The accompanying notes are an integral part of this statement.

Program Revenues		Net (Expense) Revenue and Changes in Net Position		
Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
		Governmental Activities	Business-type Activities	Total
\$ 572,195	\$ -	\$ (5,980,002)	\$ -	\$ (5,980,002)
92,837	30,299	(4,296,736)	-	(4,296,736)
-	-	(7,868)	-	(7,868)
-	-	(543,832)	-	(543,832)
-	-	(81,072)	-	(81,072)
-	-	(665,423)	-	(665,423)
665,032	30,299	(11,574,933)	-	(11,574,933)
348,519	-	-	12,639	12,639
-	-	-	732	732
348,519	-	-	13,371	13,371
\$ 1,013,551	\$ 30,299	(11,574,933)	13,371	(11,561,562)
GENERAL REVENUES, TRANSFERS, AND GAINS				
Taxes:				
Property Taxes		9,417,709	-	9,417,709
Gross Receipts Taxes		377,765	-	377,765
Revenue from State Sources:				
State Aid		898,779	-	898,779
Revenue from Federal Sources		805,516	-	805,516
Revenue from Intermediate Sources		76,422	-	76,422
Unrestricted Investment Earnings		212,719	-	212,719
Other General Revenues		30,200	-	30,200
Gain on Disposal of Capital Assets		100,811	-	100,811
Total General Revenues, Transfers, and Gains		11,919,921	-	11,919,921
CHANGE IN NET POSITION		344,988	13,371	358,359
NET POSITION - BEGINNING		19,319,683	83,323	19,403,006
NET POSITION - ENDING		\$ 19,664,671	\$ 96,694	\$ 19,761,365

The accompanying notes are an integral part of this statement.

Custer School District No. 16-1
Balance Sheet - Governmental Funds
June 30, 2020

	<u>General Fund</u>	<u>Capital Outlay Fund</u>
ASSETS		
Cash and Cash Equivalents	\$ 6,313,081	\$ 1,479,895
Permanent Incidental Account	8,000	-
Taxes Receivable, Current	2,109,326	1,363,927
Taxes Receivable, Delinquent	54,513	28,334
Accounts Receivable, Net	158	-
Due from Other Governments	488,685	-
Restricted Assets:		
Cash Restricted for Construction	-	10,504,391
Investments Restricted for Debt Service	-	-
TOTAL ASSETS	<u>\$ 8,973,763</u>	<u>\$ 13,376,547</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES		
Liabilities:		
Accounts Payable	\$ 52,755	\$ 443,373
Contracts Payable	452,867	-
Payroll Deductions and Employer Matching Payable	159,087	-
Total Liabilities	<u>664,709</u>	<u>443,373</u>
Deferred Inflows of Resources:		
Property Taxes Levied for Future Periods	2,315,972	1,496,405
Delinquent Property Taxes Received Outside the Period of Availability	68,696	26,971
Total Deferred Inflows of Resources	<u>2,384,668</u>	<u>1,523,376</u>
Fund Balances:		
Restricted:		
For Capital Outlay	-	11,409,798
For Special Education	-	-
For Debt Service	-	-
Assigned:		
For Next Year's Budget	503,371	-
Unassigned	5,421,015	-
Total Fund Balances	<u>5,924,386</u>	<u>11,409,798</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 8,973,763</u>	<u>\$ 13,376,547</u>

The accompanying notes are an integral part of this statement.

Special Education Fund	Non-major Fund	Total Governmental Funds
\$ 1,046,847	\$ -	\$ 8,839,823
-	-	8,000
806,250	-	4,279,503
14,382	-	97,229
-	-	158
12,623	-	501,308
-	-	10,504,391
-	2,102,920	2,102,920
\$ 1,880,102	\$ 2,102,920	\$ 26,333,332
\$ 10,723	\$ -	\$ 506,851
67,136	-	520,003
26,136	-	185,223
103,995	-	1,212,077
879,667	-	4,692,044
17,929	-	113,596
897,596	-	4,805,640
-	-	11,409,798
878,511	-	878,511
-	2,102,920	2,102,920
-	-	503,371
-	-	5,421,015
878,511	2,102,920	20,315,615
\$ 1,880,102	\$ 2,102,920	\$ 26,333,332

The accompanying notes are an integral part of this statement.

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Custer School District No. 16-1
Reconciliation of the Governmental Funds Balance
Sheet to the Statement of Net Position
June 30, 2020

Total Fund Balances - Governmental Funds	\$ 20,315,615
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	19,409,725
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
General Obligation Debt Capital Outlay Certificates	(19,145,000)
Compensated Absences	(324,519)
Other Post Employment Benefits	(27,229)
Voluntary Separation Liability	(139,551)
Energy Efficient Loan	(299,105)
Accrued Interest Payable	(112,900)
Assets, including property taxes receivable and other receivables that are not available to pay for current period expenditures, are deferred in the governmental funds.	113,596
Proportionate share of the net pension asset is not an asset reported in the governmental funds.	25,194
Pension-related deferred outflows are components of pension liability (asset) and changes are not reported in the funds.	1,292,696
Pension-related deferred inflows are components of pension liability (asset) and changes are not reported in the funds.	(533,439)
Unamortized premiums and discounts on debt are immediately recognized as revenues or expenditures in the governmental funds but are not recognized as assets or liabilities in the government-wide statements.	<u>(910,412)</u>
Net Position - Governmental Activities	<u>\$ 19,664,671</u>

The accompanying notes are an integral part of this statement.

Custer School District No. 16-1
Statement of Revenues, Expenditures and Changes in
Fund Balances - Governmental Funds
For the Year Ended June 30, 2020

	<u>General Fund</u>	<u>Capital Outlay Fund</u>
REVENUES		
Revenue from Local Sources:		
Taxes:		
Ad Valorem Taxes	\$ 4,675,014	\$ 3,028,947
Gross Receipts Taxes	377,765	-
Penalties and Interest on Taxes	18,240	7,904
Cocurricular Activities	25,928	-
Earnings (Loss) on Deposits	69,477	40,598
Other Local Revenue	84,387	-
Total Revenue from Local Sources	<u>5,250,811</u>	<u>3,077,449</u>
Revenue from Intermediate Sources:		
County Sources	<u>76,422</u>	<u>-</u>
Revenue from State Sources:		
Unrestricted Grants-in-aid	898,779	-
Restricted Grants-in-aid	<u>5,704</u>	<u>-</u>
Total Revenue from State Sources	<u>904,483</u>	<u>-</u>
Revenue from Federal Sources:		
Unrestricted Grants-in-aid	805,516	-
Restricted Grants-in-aid	<u>386,727</u>	<u>42,761</u>
Total Revenue from Federal Sources	<u>1,192,243</u>	<u>42,761</u>
Total Revenue	<u>7,423,959</u>	<u>3,120,210</u>

The accompanying notes are an integral part of this statement.

<u>Special Education Fund</u>	<u>Non-major Fund</u>	<u>Total Governmental Funds</u>
\$ 1,718,069	\$ -	\$ 9,422,030
-	-	377,765
4,135	-	30,279
-	-	25,928
-	102,644	212,719
<u>16,329</u>	<u>-</u>	<u>100,716</u>
<u>1,738,533</u>	<u>102,644</u>	<u>10,169,437</u>
<u>-</u>	<u>-</u>	<u>76,422</u>
-	-	898,779
<u>-</u>	<u>-</u>	<u>5,704</u>
<u>-</u>	<u>-</u>	<u>904,483</u>
-	-	805,516
<u>229,840</u>	<u>-</u>	<u>659,328</u>
<u>229,840</u>	<u>-</u>	<u>1,464,844</u>
<u>1,968,373</u>	<u>102,644</u>	<u>12,615,186</u>

The accompanying notes are an integral part of this statement.

Custer School District No. 16-1
Statement of Revenues, Expenditures and Changes in
Fund Balances - Governmental Funds (Continued)
For the Year Ended June 30, 2020

	<u>General Fund</u>	<u>Capital Outlay Fund</u>
EXPENDITURES		
Instructional Services:		
Regular Programs	3,978,772	553,270
Special Programs	234,651	18,511
Post Secondary Occupational Programs	2,000	-
Total Instructional Services	<u>4,215,423</u>	<u>571,781</u>
Support Services:		
Pupils	283,295	-
Instructional Staff	185,697	2,721
General Administration	428,859	-
School Administration	494,749	-
Business	1,662,300	665,700
Special Education	-	-
Total Support Services	<u>3,054,900</u>	<u>668,421</u>
Cocurricular Activities:		
Male Activities	90,341	-
Female Activities	49,013	-
Transportation	93,412	8,988
Combined Activities	<u>169,670</u>	<u>58,275</u>
Total Cocurricular Activities	<u>402,436</u>	<u>67,263</u>
Other Nonprogrammed Costs:		
Compensated Absence Payments	<u>38,536</u>	-
Total Other Nonprogrammed Costs	<u>38,536</u>	-
Debt Services	<u>-</u>	<u>5,601,964</u>
Capital Outlay	<u>-</u>	<u>910,375</u>
Total Expenditures	<u>7,711,295</u>	<u>7,819,804</u>

The accompanying notes are an integral part of this statement.

Special Education Fund	Non-major Fund	Total Governmental Funds
-	-	4,532,042
1,049,247	-	1,302,409
-	-	2,000
<u>1,049,247</u>	<u>-</u>	<u>5,836,451</u>
247,628	-	530,923
-	-	188,418
-	-	428,859
-	-	494,749
-	-	2,328,000
223,916	-	223,916
<u>471,544</u>	<u>-</u>	<u>4,194,865</u>
-	-	90,341
-	-	49,013
-	-	102,400
<u>-</u>	<u>-</u>	<u>227,945</u>
<u>-</u>	<u>-</u>	<u>469,699</u>
74,452	-	112,988
<u>74,452</u>	<u>-</u>	<u>112,988</u>
<u>-</u>	<u>-</u>	<u>5,601,964</u>
<u>-</u>	<u>-</u>	<u>910,375</u>
<u>1,595,243</u>	<u>-</u>	<u>17,126,342</u>

The accompanying notes are an integral part of this statement.

Custer School District No. 16-1
Statement of Revenues, Expenditures, and Changes in
Fund Balances - Governmental Funds (Continued)
For the Year Ended June 30, 2020

	<u>General Fund</u>	<u>Capital Outlay Fund</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(287,336)</u>	<u>(4,699,594)</u>
OTHER FINANCING SOURCES (USES)		
Debt Proceeds	-	11,675,000
Debt Issuance Costs	-	(167,793)
Transfer In (Out)	245,000	(411,000)
Sale of Surplus Property	14,248	-
Premiums on Debt Issuance	-	(900,525)
Compensation for Loss of General Capital Assets	<u>17,128</u>	<u>69,435</u>
Total Other Financing Sources (Uses)	<u>276,376</u>	<u>10,265,117</u>
NET CHANGE IN FUND BALANCES	(10,960)	5,565,523
FUND BALANCE - BEGINNING	<u>5,935,346</u>	<u>5,844,275</u>
FUND BALANCE - ENDING	<u>\$ 5,924,386</u>	<u>\$ 11,409,798</u>

The accompanying notes are an integral part of this statement.

<u>Special Education Fund</u>	<u>Non-major Fund</u>	<u>Total Governmental Funds</u>
<u>373,130</u>	<u>102,644</u>	<u>(4,511,156)</u>
-	-	11,675,000
-	-	(167,793)
-	166,000	-
-	-	14,248
-	-	(900,525)
<u>-</u>	<u>-</u>	<u>86,563</u>
<u>-</u>	<u>166,000</u>	<u>10,707,493</u>
373,130	268,644	6,196,337
<u>505,381</u>	<u>1,834,276</u>	<u>14,119,278</u>
<u>\$ 878,511</u>	<u>\$ 2,102,920</u>	<u>\$ 20,315,615</u>

The accompanying notes are an integral part of this statement.

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Custer School District No. 16-1
Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures, and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2020

Net Change in Fund Balances - Total Governmental Funds	\$ 6,196,337
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital asset purchases exceeded depreciation expense in the current period.	524,502
The recognition of revenues in the governmental funds differs from the recognition in the governmental activities in the fact that revenue accruals in the fund financial statements require the amounts to be "available."	(34,602)
Governmental funds do not reflect the change in compensated absences, voluntary separation, and OPEB liabilities, but the Statement of Activities reflects the change in these accruals through expenses.	31,916
Repayment of general obligation debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	7,038,235
Issuance of general obligation debt is a revenue in the governmental funds, but the issuance increases long-term liabilities in the Statement of Net Position.	(11,675,000)
Unamortized discounts/premiums associated with general obligation debt are recorded as expenditures or other financing sources in the governmental funds. However, these items are amortized over the life of the debt in the governmental activities. This is the amount by which deferrals exceeded unamortized discounts/premiums for the current period.	(920,498)
Accrued interest expense reported in the Statement of Activities does not require the use of current financial resources and is not reported in the funds.	(112,900)
Pension expenses in the Statement of Activities that do not provide current financial resources are not reported as expenses in the funds.	(703,002)
Change in Net Position of Governmental Activities	<u>\$ 344,988</u>

The accompanying notes are an integral part of this statement.

Custer School District No. 16-1
Statement of Net Position - Proprietary Funds
June 30, 2020

	Enterprise Funds		Totals
	Food Service Fund	Other Enterprise Fund (Non-major)	
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 79,325	\$ 7,279	\$ 86,604
Due from Other Governments	49,052	-	49,052
Inventory	6,769	-	6,769
Total Current Assets	135,146	7,279	142,425
Noncurrent Assets:			
Machinery and Equipment - Local Funds	176,084	-	176,084
Less: Accumulated Depreciation	(148,045)	-	(148,045)
Total Noncurrent Assets	28,039	-	28,039
TOTAL ASSETS	163,185	7,279	170,464
LIABILITIES			
Current Liabilities:			
Accounts Payable	50,953	-	50,953
Contracts Payable	1,789	-	1,789
Payroll Deductions and Employer Matching Payable	234	-	234
Unearned Revenue	20,794	-	20,794
TOTAL LIABILITIES	73,770	-	73,770
NET POSITION			
Net Investment in Capital Assets	28,039	-	28,039
Unrestricted	61,376	7,279	68,655
TOTAL NET POSITION	\$ 89,415	\$ 7,279	\$ 96,694

The accompanying notes are an integral part of this statement.

Custer School District No. 16-1
Statement of Revenues, Expenses and Changes in Fund
Net Position - Proprietary Funds
For the Year Ended June 30, 2020

	Enterprise Funds		Totals
	Food Service Fund	Other Enterprise Fund (Non-major)	
OPERATING REVENUE			
Sales to Pupils	\$ 176,615	\$ -	\$ 176,615
Sales to Adults	7,012	-	7,012
Other Operating Revenue	-	983	983
Total Operating Revenue	<u>183,627</u>	<u>983</u>	<u>184,610</u>
OPERATING EXPENSES			
Salaries	4,228	-	4,228
Employee Benefits	563	-	563
Purchased Services	489,849	-	489,849
Supplies	1,136	251	1,387
Cost of Sales - Purchased	525	-	525
Cost of Sales - Donated Food	14,610	-	14,610
Depreciation	8,596	-	8,596
Total Operating Expenses	<u>519,507</u>	<u>251</u>	<u>519,758</u>
OPERATING INCOME (LOSS)	<u>(335,880)</u>	<u>732</u>	<u>(335,148)</u>
NONOPERATING REVENUE			
State Sources:			
Other Local Revenue	10,125	-	10,125
Cash Reimbursements	1,339	-	1,339
Federal Sources:			
Cash Reimbursements	316,918	-	316,918
Donated Food	20,137	-	20,137
Total Nonoperating Revenues	<u>348,519</u>	<u>-</u>	<u>348,519</u>
CHANGE IN NET POSITION	12,639	732	13,371
NET POSITION - BEGINNING	<u>76,776</u>	<u>6,547</u>	<u>83,323</u>
NET POSITION - ENDING	<u>\$ 89,415</u>	<u>\$ 7,279</u>	<u>\$ 96,694</u>

The accompanying notes are an integral part of this statement.

Custer School District No. 16-1
Statement of Cash Flows - Proprietary Funds
For the Year Ended June 30, 2020

	<u>Enterprise Funds</u>		<u>Totals</u>
	<u>Food Service Fund</u>	<u>Other Enterprise Fund (Non-major)</u>	
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers	\$ 193,878	\$ 983	\$ 194,861
Cash Payments to Employees for Services	(2,768)	-	(2,768)
Payments to Suppliers	<u>(440,557)</u>	<u>(251)</u>	<u>(440,808)</u>
Net Cash Provided (Used) by Operating Activities	<u>(249,447)</u>	<u>732</u>	<u>(248,715)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating Subsidies	<u>279,329</u>	<u>-</u>	<u>279,329</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>29,882</u>	<u>732</u>	<u>30,614</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>49,443</u>	<u>6,547</u>	<u>55,990</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 79,325</u>	<u>\$ 7,279</u>	<u>\$ 86,604</u>

The accompanying notes are an integral part of this statement.

	<u>Enterprise Funds</u>		<u>Totals</u>
	<u>Food Service Fund</u>	<u>Other Enterprise Fund (Non-major)</u>	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating Income (Loss)	\$ (335,880)	\$ 732	\$ (335,148)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	8,596	-	8,596
Cost of Sales - Donated Food	14,610	-	14,610
Change in Assets and Liabilities:			
Accounts Payable	50,953	-	50,953
Payroll Liabilities	2,023	-	2,023
Deferred Revenue	<u>10,251</u>	<u>-</u>	<u>10,251</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (249,447)</u>	<u>\$ 732</u>	<u>\$ (248,715)</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES			
Value of Commodities Received	<u>\$ 20,137</u>	<u>\$ -</u>	<u>\$ 20,137</u>

The accompanying notes are an integral part of this statement.

Custer School District No. 16-1
Statement of Fiduciary Net Position - Fiduciary Funds
June 30, 2020

	<u>Agency Funds</u>
ASSETS	
Cash and Cash Equivalents	\$ <u>116,416</u>
LIABILITIES	
Amounts Held for Others	\$ <u>116,416</u>

The accompanying notes are an integral part of this statement.

Custer School District No. 16-1
Notes to the Financial Statements
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

The reporting entity of Custer School District No. 16-1 (the District), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

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

The District participates in a cooperative service unit with several other school districts. See Note 10 - Joint Venture for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit but are discussed in the notes because of the nature of their relationship with the District.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-wide Financial Statements

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

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

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

Custer School District No. 16-1
Notes to the Financial Statements
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

C. FUND TYPES AND MAJOR FUNDS

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

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

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

Governmental Funds

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

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

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

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

Debt Service Fund - Debt service funds are used to account for the accumulation of resources for the payment of general long-term debt principal, interest, and related costs. The District has one debt service fund used to accumulate annual principal payments in escrow for the eventual repayment of the 2009A Capital Outlay Certificates. The debt service fund is not a major fund.

Custer School District No. 16-1
Notes to the Financial Statements
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary Funds

Enterprise Fund Types - Enterprise funds are used to account for operations that (a) are financed and operated in a manner similar to private business enterprises, where the focus of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis whether financed or recovered through user charges or grants; or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The District's enterprise funds are as follows:

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

Other Enterprise Fund - A fund used to record financial transactions related to the driver's education program. This fund is financed by user charges. This is a major fund.

Fiduciary Funds

Fiduciary funds are never considered to be major funds.

Agency Fund Types - Agency funds are used to account for resources held by the District in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature, they do not involve the measurement of the results of operations. The District maintains a variety of agency funds to hold assets as an agent in a trustee capacity for various classes, clubs, and so on.

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

Measurement Focus

Government-wide Financial Statements:

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

Fund Financial Statements

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

Custer School District No. 16-1
Notes to the Financial Statements
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

Government-wide Financial Statements

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

Fund Financial Statements

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. "Available" means resources are collected or will be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The District considers significant revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end.

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

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

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

E. INTERFUND ELIMINATIONS AND RECLASSIFICATIONS

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

F. CASH AND CASH EQUIVALENTS

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

G. INVENTORY

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

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

Custer School District No. 16-1
Notes to the Financial Statements
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

H. RESTRICTED ASSETS

The District has reported restricted assets in the Debt Service fund and on the Statement of Net Position. The amounts reported as restricted for the retirement of debt represent the Sinking Fund for outstanding Capital Outlay certificates. The restricted assets are US Treasury Bonds and US Treasury Strips bearing various interest rates and maturing between 2019 and 2023. See Note 2 and Note 5 for additional information related to investments held and the capital outlay certificates, respectively.

I. CAPITAL ASSETS

Capital assets include land, buildings, improvements, equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

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

Government-wide Financial Statements

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

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

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

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

Custer School District No. 16-1
Notes to the Financial Statements
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements

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

J. LONG-TERM LIABILITIES

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

Government-wide Financial Statements

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

Compensated Absences Payable - Compensated absences payable is the annual leave earned by employees. Vacation leave is earned by twelve-month employees at varying rates depending on years of service. Sick leave is earned by the employees at the rate of one day for each month worked. Upon termination employees are entitled to receive compensation for their accrued annual leave, employees are not entitled to compensation for sick leave balances. Accrued leave payable balances are reported in Note 5 as compensated absences. For employees normally paid out of the governmental funds, these amounts are charged as an expenditure at the time of termination or when the benefit becomes payable to the employee.

Fund Financial Statements

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

K. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

The District reports increases in net position that relate to future periods as deferred outflows of resources in a separate section of its government-wide and proprietary funds statements of net position. The only deferred outflow of resources reported is a deferred amount arising from the District's pension plan for qualified retirees as discussed in Note 9. There are no deferred outflows of resources reported in the governmental funds balance sheet.

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

Custer School District No. 16-1
Notes to the Financial Statements
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. NET POSITION AND FUND BALANCE

Government-wide Financial Statements

It is the District's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net positions are available. Net Position includes the following three components:

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

Restricted - Consists of net position with constraints placed on 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.

Unrestricted - Represents all other net positions that do not meet the definition of "restricted" or "invested in capital assets."

Fund Financial Statements

Governmental fund equity is classed as fund balance, which is distinguished between the following classifications:

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 that are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Assigned - Includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted nor committed.

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

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

Proprietary net positions are classified the same as in the government-wide financial statements. Fiduciary net positions (except for Agency Funds, which do not have net position) are reported as net position held in trust for other purposes.

M. PROPRIETARY FUND REVENUE AND EXPENSE CLASSIFICATIONS

In the proprietary fund Statement of Revenues, Expenses, and Changes in Fund Net Position revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

Custer School District No. 16-1
Notes to the Financial Statements
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. PROGRAM REVENUES

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

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

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

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

O. UNEARNED REVENUE

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

P. PENSIONS

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

Deposits - The District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1, and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts 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 school district funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

Custer School District No. 16-1
Notes to the Financial Statements
June 30, 2020

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The investments held by the District at June 30, 2020 were:

Investment	Credit Rating	Fair Value	Maturities			Valuation Level
			< 1 Year	1 - 5 Years	> 5 Years	
Money Market	Unrated	\$ 349,762	\$ 349,762	\$ -	\$ -	1
U.S. Treasury Strips	N/A	1,753,158	218,884	1,534,274	-	2
		<u>\$ 2,102,920</u>	<u>\$ 568,646</u>	<u>\$ 1,534,274</u>	<u>\$ -</u>	

Certificates of deposit, with a term to maturity of greater than 3 months when purchased, were insured or collateralized and are considered deposits.

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

- U.S. Treasury Strips - Many of these securities do not trade on a daily basis so, in the absence of available quotations for identical assets, they must be valued using other methods. These investments are valued by the custodian through the use of outside pricing services. Such services employ pricing models and applications incorporating inputs such as security quality, cash flow, maturity, and coupon, and review of recent market price quotations for similar assets.

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

Custodial Credit Risk - Deposits - The risk that, in the event of a depository failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2020, the District's deposits in financial institutions were not exposed to credit risk as all deposits were fully collateralized by pledged securities.

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

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

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

Custer School District No. 16-1
Notes to the Financial Statements
June 30, 2020

NOTE 3 - DUE FROM OTHER GOVERNMENTS

As of June 30, 2020, amounts due from other governments as reported in the financial statements consisted of the following:

SD Department of Education	\$	166,972
State of South Dakota		<u>383,388</u>
		<u>\$ 550,360</u>

NOTE 4 - CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2020 is as follows:

	<u>Balance</u> <u>June 30, 2019</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2020</u>
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 243,323	\$ 145,135	\$ -	\$ 388,458
Construction in Progress	<u>-</u>	<u>679,526</u>	<u>-</u>	<u>679,526</u>
Total Capital Assets Not Being Depreciated	<u>243,323</u>	<u>824,661</u>	<u>-</u>	<u>1,067,984</u>
Capital Assets Being Depreciated:				
Buildings	20,611,719	-	-	20,611,719
Improvements	1,153,087	-	-	1,153,087
Equipment	<u>1,881,659</u>	<u>85,714</u>	<u>-</u>	<u>1,967,373</u>
Total Capital Assets Being Depreciated	<u>23,646,465</u>	<u>85,714</u>	<u>-</u>	<u>23,732,179</u>
Less Accumulated Depreciation for:				
Equipment	1,140,398	118,182	-	1,258,580
Buildings	2,845,316	207,311	-	3,052,627
Improvements	<u>1,018,851</u>	<u>60,380</u>	<u>-</u>	<u>1,079,231</u>
Total Accumulated Depreciation	<u>5,004,565</u>	<u>385,873</u>	<u>-</u>	<u>5,390,438</u>
Total Capital Assets Being Depreciated, Net	<u>18,641,900</u>	<u>(300,159)</u>	<u>-</u>	<u>18,341,741</u>
Net Capital Assets	<u>\$ 18,885,223</u>	<u>\$ 524,502</u>	<u>\$ -</u>	<u>\$ 19,409,725</u>
Business-type Activities:				
Equipment	\$ 178,692	\$ -	\$ 2,608	\$ 176,084
Less: Accumulated Depreciation	<u>142,058</u>	<u>8,595</u>	<u>2,608</u>	<u>148,045</u>
Net Capital Assets	<u>\$ 36,634</u>	<u>\$ (8,595)</u>	<u>\$ -</u>	<u>\$ 28,039</u>

The total represented in the Construction in Progress balance is for the construction of the school in Hermosa. The project is expected to cost \$12,745,502. The project is being funded by Capital Outlay Certificates and is expected to be completed in January of 2022.

Custer School District No. 16-1
Notes to the Financial Statements
June 30, 2020

NOTE 4 - CHANGES IN CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 230,493
Support Services	67,915
Community Services	11,281
Cocurricular Activities	<u>76,184</u>
 Total Depreciation Expense	 <u>\$ 385,873</u>

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

NOTE 5 - LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities:

	Balance <u>June 30, 2019</u>	<u>Increase</u>	<u>Decrease</u>	Balance <u>June 30, 2020</u>	Amounts Due <u>Within 1 Year</u>
Governmental Activities:					
General Obligation Debt:					
Capital Outlay Certificates	\$ 14,475,000	\$ 11,675,000	\$ 7,005,000	\$ 19,145,000	\$ 1,005,000
Bond (Discount) Premiums	(10,086)	900,526	19,972	910,412	-
Energy Efficient Loan	<u>332,340</u>	<u>-</u>	<u>33,235</u>	<u>299,105</u>	<u>33,235</u>
Subtotal	14,797,254	12,575,526	7,058,207	20,354,517	1,038,235
Other Liabilities:					
Compensated Absences	297,293	47,940	20,714	324,519	26,065
Other Post Employment Benefits	27,229	-	-	27,229	-
Voluntary Separation Liability	<u>198,693</u>	<u>53,844</u>	<u>112,986</u>	<u>139,551</u>	<u>89,297</u>
Total Long-term Liabilities	<u>\$ 15,320,469</u>	<u>\$ 12,677,310</u>	<u>\$ 7,191,907</u>	<u>\$ 20,845,816</u>	<u>\$ 1,153,597</u>

Custer School District No. 16-1
Notes to the Financial Statements
June 30, 2020

NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)

Capital outlay certificates and other general obligations at June 30, 2020 were comprised of the following:

2009A Capital Outlay Certificates, Bearing Interest at a Fixed Rate of 0.70%, Due 6/15/2024	\$ 2,480,000
2016 Capital Outlay Certificates, Bearing Interest at Fixed Rate of 2.00%, Due 1/1/2030	565,000
2016A Capital Outlay Certificates, Bearing Interest at Fixed Rate of 2.00%, Due 6/30/2030	4,425,000
Energy Efficient Loan, Bearing Interest Rate at 0%, Due 7/31/2028	299,105
Series 2019 Capital Outlay Certificates, Bearing Interest at a Fixed Rate of 3%, Due 6/30/2024	1,875,000
Series 2020A Capital Outlay Certificates, Bearing Interest at a Variable Rate between 2% and 4%, Due 1/15/2040	9,800,000
Net Bond Premiums	910,412
	<u>\$ 20,354,517</u>

The annual debt service requirements to maturity for all long-term debt outstanding as of June 30, 2020, excluding compensated absences, are as follows:

Year Ending June 30,	General Obligation Debt		Voluntary Separation Costs	Totals
	Principal	Interest		
2021	\$ 1,038,235	\$ 409,537	\$ 89,297	\$ 1,537,069
2022	1,043,235	420,475	32,307	1,496,017
2023	1,073,235	395,045	17,947	1,486,227
2024	3,573,235	368,808	-	3,942,043
2025	468,235	350,670	-	818,905
2026-2030	2,447,930	1,619,050	-	4,066,980
2031-2035	3,505,000	1,316,150	-	4,821,150
2036-2040	6,295,000	577,800	-	6,872,800
Total Payments	\$ 19,444,105	\$ 5,457,535	139,551	\$ 25,041,191
Less: Interest			-	
Present Value of Early Retirement Benefits			\$ 139,551	

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

Custer School District No. 16-1
Notes to the Financial Statements
June 30, 2020

NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)

Sinking Fund provisions on 2009A Capital Outlay Certificates require annual deposits of \$165,000 until fiscal year 2023 after which the fund will continue to earn interest until maturity on June 30, 2024. The current balance of the sinking fund is presented as investments in the fund and governmental statements. The 2009A Capital Outlay Certificates were refinanced in the current year and there are no new restrictive covenants on the refinanced certificates.

Voluntary separation costs are available to teachers and administrators that meet certain criteria. Upon retirement, the employee is entitled to receive a payment calculated by taking 5% of the current salary of the employee multiplied by the number of full years (up to a maximum of 20 years) service in the District. At June 30, 2020, there were 8 employees entitled to receive such payments. Voluntary separation benefits are paid in three annual installments following the separation date of the employee. The final payment is currently scheduled for fiscal year 2023.

For the year ended June 30, 2020, payments of voluntary separation benefits were made out of the General Fund in the amount of \$38,536 and the Special Education Fund in the amount of \$74,452.

NOTE 6 - RESTRICTED NET POSITION

The following table shows the components of restricted net position as presented on the Statement of Net Position:

Purpose	Restricted By		
Major Purposes:			
Capital Outlay	Law	\$	1,319,428
Special Education	Law		849,274
Debt Service	Debt Covenants		2,102,920
Proportionate Share of Net Pension	Law		784,451
Total		\$	5,056,073

Although unrestricted, the Food Service Fund's net position in the amount of \$61,376 is limited by Federal Regulations as the District's food services are primarily funded with federal grants.

NOTE 7 - PROPERTY TAX

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

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

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

Custer School District No. 16-1
Notes to the Financial Statements
June 30, 2020

NOTE 8 - INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2020 were as follows:

	Transfers To:		
Transfers From:	General Fund	Nonmajor Fund	Total
Capital Outlay Fund	\$ 245,000	\$ 166,000	\$ 411,000

The transfer from the Capital Outlay Fund to the Debt Service Fund was made for sinking fund provisions required by the 2009A capital outlay certificates. The transfer from the Capital Outlay Fund to the General Fund was made as allowed by South Dakota statute.

NOTE 9 - PENSION PLAN

Plan Information

All employees, working more than 20 hours per week during the school year, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple-employer defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivors' benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering, and amending plan provisions is found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://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 hired before July 1, 2017, are Foundation members. Class A Foundation members and Class B Foundation members retiring after age 65 with three years of contributory service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A Foundation members where the sum of age and credited service is equal to or greater than 85, or after age 55 for Class B Foundation judicial members where the sum of age and credited service is equal to or greater than 80. Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B Foundation public safety members where the sum of age and credited service is equal to or greater than 75. All Foundation retirement benefits that do not meet the above criteria may be payable at a reduced level.

Members hired on or after July 1, 2017 are Generational members. Class A Generational members and Class B Generational judicial members retiring after age 67 with three years of contributory service are entitled to an unreduced annual retirement benefit. Class B Generational public safety members can retire with an unreduced annual retirement benefit after age 57 with three years of contributory service. At retirement, married Generational members may elect a single-life benefit, a 60% joint and survivor benefit, or a 100% joint and survivor benefit. All Generational 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% of compensation funded by part of the employer contribution. VRAs will receive investment earnings based on investment returns.

Custer School District No. 16-1
Notes to the Financial Statements
June 30, 2020

NOTE 9 - PENSION PLAN (CONTINUED)

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

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to the long-term inflation assumption of 2.25%
- If the fair value of assets is greater or equal to the baseline actuarial accrued liabilities the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than 3.5%.
- If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than a restricted maximum such that, 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 District's share of contributions to the SDRS for the fiscal years ended June 30, 2020, 2019, and 2018 were \$312,566, \$303,292, and \$300,031, respectively, equal to the required contributions each year.

Pension Liabilities (Assets), Pension Expense (Revenue), 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 shares of the components of the net pension liability (asset) of South Dakota Retirement System, for the District as of the measurement period ending June 30, 2019 and reported by the District as of June 30, 2019 are as follows:

Proportionate Share of Pension Liability	\$ 29,627,815
Less: Proportionate Share of Net Pension Restricted for Pension Benefits	<u>29,653,009</u>
Proportionate Share of Net Pension Liability (Asset)	<u><u>\$ (25,194)</u></u>

At June 30, 2019, the District reported an asset of \$25,194 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2019 and the total pension asset used to calculate the net pension asset was based on a projection of the District's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2019, the District's proportion was 0.2377414% which is a decrease of 0.0027947% from its proportion measured as of June 30, 2018.

Custer School District No. 16-1
Notes to the Financial Statements
June 30, 2020

NOTE 9 - PENSION PLAN (CONTINUED)

For the year ended June 30, 2020, the District recognized pension expense (reduction of pension expense) of \$703,002. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ 98,826	\$ 11,403
Changes in Assumption	870,138	356,714
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	145,139
Changes in Proportion and Difference Between District Contributions and Proportionate Share of Contributions	11,166	20,183
District Contributions Subsequent to the Measurement Date	312,566	-
Total	\$ 1,292,696	\$ 533,439

\$312,566 reported as deferred outflow of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year Ended June 30,		
2021	\$	544,087
2022		(89,836)
2023		(57,290)
2024		49,730
2025		-
Thereafter		-
Total	\$	446,691

Actuarial Assumptions

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

Inflation	2.25%
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 COLA's	1.88%

Custer School District No. 16-1
Notes to the Financial Statements
June 30, 2020

NOTE 9 - PENSION PLAN (CONTINUED)

Mortality rates were based on 97% of the RP-2014 Mortality Table, 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, 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 the management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017 (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	<u>2.0%</u>	0.9%
Total	<u>100%</u>	

Discount Rate

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

Custer School District No. 16-1
Notes to the Financial Statements
June 30, 2020

NOTE 9 - PENSION PLAN (CONTINUED)

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

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

	1% Decrease	Current Discount Rate	1% Increase
District's Proportionate Share of the Net Pension Liability (Asset)	\$ 4,181,724	\$ (25,194)	\$ (3,453,072)

Pension Plan Fiduciary Net Position

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

NOTE 10 - JOINT VENTURE

The District participates in the Black Hills Special Services Cooperative (the Co-op), a cooperative service unit formed for the purpose of providing special education and other services to the member school districts. During the year ended June 30, 2020, the District paid \$146,945 for services provided by the Co-op.

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

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

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

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

Separate financial statements may be obtained by writing to BHSSC, PO Box 218, Sturgis SD 57785. At June 30, 2020, this joint venture had audited total assets of \$6,908,703, liabilities of \$2,249,584, and net position of \$6,819,099.

Custer School District No. 16-1
Notes to the Financial Statements
June 30, 2020

NOTE 10 - JOINT VENTURE (CONTINUED)

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

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

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

Separate financial statements may be obtained by writing to BHEBC, PO Box 218, Sturgis SD 57785. At June 30, 2020, this joint venture had audited total assets of \$6,922,030, liabilities of \$646,199, and equity of \$6,275,831.

NOTE 11 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2020, the District managed its risks as follows:

Employee Health Insurance

As discussed in Note 10, the District joined together with other educational units in the state to form a public entity risk pool. This is a public entity risk pool currently operating as a common-risk management and insurance program for six member districts. The District 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 coverage provides a deductible of \$1,500 per person up to \$3,000 per family. The plan also provides for coinsurance of 70 or 80 percent up to \$6,000. The coverage also includes a \$1,000,000 lifetime maximum payment per person.

The District does not carry additional health insurance coverage to pay claims in excess of this upper limit. Settled claims resulting from these risks have never exceeded the liability coverage.

Liability Insurance

The District joined the Associated School Boards of South Dakota Property and Liability Fund (ASBSD-PLF), a public entity risk pool currently operating as a common-risk management and insurance program for South Dakota school districts. The objective of the ASBSD-PLF 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 District's responsibility is to promptly report to and cooperate with the ASBSD-PLF to resolve any incident which could result in a claim being made or by or against the District. The District pays an annual premium, 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 ASBSD-PLF member, based on their exposure or type of coverage. The District pays an annual premium to the pool to provide coverage for property insurance, general liability, automobile, crime, boiler and machinery, umbrella liability, and errors and omissions.

Custer School District No. 16-1
Notes to the Financial Statements
June 30, 2020

NOTE 11 - RISK MANAGEMENT (CONTINUED)

The agreement with the Associated School Boards of South Dakota Property Liability Fund provides that the above coverage will be provided with a \$2,000,000 limit on liability coverage, \$250,000,000 limit on property, \$50,000,000 limit on boiler and machinery, and \$350,000 for various criminal acts. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of deductibles. As of June 30, 2020, the District carried the following deductibles related to insurance coverage:

General Liability	\$ -0-
Boiler and Machinery	5,000
Errors and Omissions	10,000
Defense Only Claims	5,000
Property	500
Automobile	-0-
Crime	1,000
Employee Benefits Liability	1,000

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

Workmen's Compensation:

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

The District's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report and to cooperate with the Fund to resolve any worker's compensation claims. The District pays an annual premium to provide worker's compensation coverage for its employees under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. The District may also be responsible for additional assessments in the event the Fund is determined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the Fund of all participants for the year in which the shortfall occurs. The Fund provides loss coverage to all participants through Fund retained risk retention and through insurance coverage purchased by the Fund in excess of the retained risk. The Fund pays the first \$500,000 of any claim per individual. The Fund has reinsurance which covers up to \$1,000,000 per individual incident. There was no additional assessment charged to pool members for the year ended June 30, 2020.

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

Unemployment Benefits:

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

Custer School District No. 16-1
Notes to the Financial Statements
June 30, 2020

NOTE 12 - POST-EMPLOYMENT HEALTHCARE PLAN

Plan Description

The District offers a single-employer defined benefit healthcare plan. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses as permitted by SDCL 6-1-16. Benefit provisions were established and may be amended during the negotiated agreement process between the District's certified staff and the governing board. The health plan does not issue separately stated stand-alone financial statements.

An employee who is employed by the District and who is eligible to participate in the group health plan is covered. A covered individual who retires from the District, is at least age 55 and has contributed 3 years of service, and is currently participating in the group plan at the time of retirement is eligible for health insurance. Spousal and dependent coverage is provided as long as the required contributions are paid. Spouses may continue coverage after the retiree's coverage terminates until the spouse has reached age 65. The eligible retiree must pay monthly contributions based on 100% of the full active employee premium rate. All coverage ceases when the retiree or spouse attains age 65 or becomes eligible for Medicare except for COBRA continuation if elected. The District ceased offering postemployment benefits to new retirees as of September 1, 2019.

Funding Policy

Retired employees must pay 100% of the premiums for their coverage.

Changes in Liability

For the year ended June 30, 2020, the beginning balance of the OPEB obligation was \$27,229. Total OPEB liability was determined as of the measurement date, which is June 30, 2018. Due to low enrollment in the Plan, the District's liability was consistent with the prior year. No expenses were incurred during the year ended June 30, 2020.

At June 30, 2020, the District did not report any deferred outflows of resources and deferred inflows of resources related to OPEB.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The entry age normal level percentage of pay actuarial cost method was used to determine the total OPEB liability.

Custer School District No. 16-1
Notes to the Financial Statements
June 30, 2020

NOTE 12 - POST-EMPLOYMENT HEALTHCARE PLAN (CONTINUED)

The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following assumptions:

- The discount rate used was 3.87% and was based upon the Bond Buyer General Obligation 20-year Municipal Bond Index as of the measurement date.
- The assumed salary rate increase was 3.5% per annum with an inflation rate increase of 3% per annum.
- The Medical Consumer Price Index Trend is assumed to be 3% per annum.
- Because the benefit will soon be closed to future participants, the assumed rate of future participants is 75%.
- All current and future retirees are assumed to be eligible for Medicare at age 65.
- Mortality rates were based on the RP-2014 Generational Table, scaled using MP-2017 and applied on a gender-specific basis.
- A marriage assumption of 50% is applied to future retirees. Spouse dates of birth were provided by the District. Where this information was missing, male spouses were assumed to be three years older than female spouses.
- The healthcare cost trend assumptions are used to project the cost of healthcare in future years. The following annual trends are based on the current HCA Consulting trend study and are applied on a select and ultimate basis. Select trends are reduced by 0.5% each year until reaching the ultimate trend rate.

Expense Type	Select	Ultimate
Pre-Medicare Medical and Rx Benefits	7.00%	4.50%
Stop Loss Fees	7.00%	4.50%
Administrative Fees	4.50%	4.50%

- The assumed per capita health claim costs are adjusted to reflect expected increases related to age and gender. The increases are based on a 2013 Society of Actuaries study.
- Expected retiree claim costs were developed by applying age adjustments to current fully insured active premium rates. The annual Age 60 claim costs for retirees and their spouses are provided in the table below:

Per Capita Cost	Age 60
Plan A	\$ 9,995
Plan B	7,978
Plan C	7,720
Future Retirees	9,895

- Future retirees are assumed to elect plan coverage at the following rates:

Plan Name	
Plan A	95.00%
Plan B	4.00%
Plan C	1.00%

Custer School District No. 16-1
Notes to the Financial Statements
June 30, 2020

NOTE 12 - POST-EMPLOYMENT HEALTHCARE PLAN (CONTINUED)

- Non-claim costs are assumed to be 15% of the premium rates. Two-thirds of fixed expenses are attributed to administrative costs. The remaining one-third is attributed to pooling costs.
- The rate of withdrawal is based on the withdrawal assumption used in the South Dakota Retirement system actuarial valuation as of June 30, 2017. The rate of withdrawal for reasons other than death and retirement is dependent on an employee's age and years of service.
- Annual retirement probabilities have been based on the South Dakota Retirement System actuarial valuation as of June 30, 2017.

Sensitivity Analysis

The following represents the District's total OPEB liability, calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease 2.87%	Current Discount Rate	1% Increase 4.87%
Total OPEB Liability	\$ 26,957	\$ 27,229	\$ 27,501

The following represents the District's total OPEB liability, calculated using the current healthcare cost trend rates as well as what the District's total OPEB liability would be if it were calculated using trend rates that are one percentage point lower or one percentage point higher than the current trend rates:

	1% Decrease	Trend Rate	1% Increase
Total OPEB Liability	\$ 26,957	\$ 27,229	\$ 27,501

NOTE 13 - CONTINGENCIES

During the year ended June 30, 2020, COVID-19 created a worldwide pandemic. The pandemic caused many jurisdictions to declare states of emergency which forced the closure of businesses, schools, and government offices. The disruption is expected to be temporary, but effects may continue for some time. The extent of the impact of COVID-19 on the District's operations will depend on developments including the duration and spread of the outbreak and impact on local education agencies, which are uncertain and cannot be predicted.

NOTE 14 - SUBSEQUENT EVENTS

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

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REQUIRED SUPPLEMENTARY INFORMATION

Custer School District No. 16-1
Budgetary Comparison Schedule - General Fund - Budgetary Basis
For the Year Ended June 30, 2020

	<u>Budgeted Original</u>	<u>Budgeted Amounts Final</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
REVENUES				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 4,453,056	\$ 4,453,056	\$ 4,675,014	\$ 221,958
Gross Receipts Taxes	300,000	300,000	377,765	77,765
Penalties and Interest on Taxes	10,000	10,000	18,240	8,240
Cocurricular Activities	25,000	25,000	25,928	928
Earnings on Deposits	65,000	65,000	69,477	4,477
Other Local Revenue	35,000	63,000	84,387	21,387
Total Revenue from Local Sources	<u>4,888,056</u>	<u>4,916,056</u>	<u>5,250,811</u>	<u>334,755</u>
Revenue from Intermediate Sources:				
County Sources	60,000	60,000	76,422	16,422
Revenue in Lieu of Taxes	10,000	10,000	-	(10,000)
Total Revenue from Intermediate Sources	<u>70,000</u>	<u>70,000</u>	<u>76,422</u>	<u>6,422</u>
Revenue from State Sources:				
Unrestricted Grants-in-aid	860,421	860,421	898,779	38,358
Restricted Grants-in-aid	-	-	5,704	5,704
Total Revenue from State Sources	<u>860,421</u>	<u>860,421</u>	<u>904,483</u>	<u>44,062</u>
Revenue from Federal Sources:				
Unrestricted Grants-in-aid	794,050	794,050	805,516	11,466
Restricted Grants-in-aid	341,873	376,873	386,727	9,854
Total Revenue from Federal Sources	<u>1,135,923</u>	<u>1,170,923</u>	<u>1,192,243</u>	<u>21,320</u>
Total Revenue	<u>6,954,400</u>	<u>7,017,400</u>	<u>7,423,959</u>	<u>406,559</u>

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

	Budgeted Original	Budgeted Amounts Final	Actual (Budgetary Basis)	Variance Positive (Negative)
EXPENDITURES				
Instructional Services:				
Regular Programs	3,946,484	3,974,484	3,978,772	(4,288)
Special Programs	234,395	234,395	234,651	(256)
Post Secondary Occupational Programs	2,000	2,000	2,000	-
Total Instructional Services	<u>4,182,879</u>	<u>4,210,879</u>	<u>4,215,423</u>	<u>(4,544)</u>
Support Services:				
Pupils	230,781	265,781	283,295	(17,514)
Instructional Staff	204,849	204,849	185,697	19,152
General Administration	457,593	457,593	428,859	28,734
School Administration	503,021	503,021	494,749	8,272
Business	1,614,671	1,614,671	1,662,300	(47,629)
Total Support Services	<u>3,010,915</u>	<u>3,045,915</u>	<u>3,054,900</u>	<u>(8,985)</u>
Cocurricular Activities:				
Male Activities	85,170	85,170	90,341	(5,171)
Female Activities	58,351	58,351	49,013	9,338
Transportation	90,283	90,283	93,412	(3,129)
Combined Activities	168,501	168,501	169,670	(1,169)
Total Cocurricular Activities	<u>402,305</u>	<u>402,305</u>	<u>402,436</u>	<u>(131)</u>
Other Nonprogrammed Costs:				
Compensated Absence Payments	76,214	76,214	38,536	37,678
Total Other Nonprogrammed Costs	<u>76,214</u>	<u>76,214</u>	<u>38,536</u>	<u>37,678</u>
Total Expenditures	<u>7,672,313</u>	<u>7,735,313</u>	<u>7,711,295</u>	<u>24,018</u>
EXCESS OF REVENUES OVER (UNDER)				
EXPENDITURES	<u>(717,913)</u>	<u>(717,913)</u>	<u>(287,336)</u>	<u>430,577</u>
OTHER FINANCING SOURCES				
Transfer In	-	245,000	245,000	-
Sale of Surplus Property	-	-	14,248	14,248
Insurance Proceeds	-	-	17,128	17,128
Contingency	50,000	-	-	-
Total Other Financing Sources	<u>50,000</u>	<u>245,000</u>	<u>276,376</u>	<u>31,376</u>
NET CHANGE IN FUND BALANCES	(667,913)	(472,913)	(10,960)	461,953
FUND BALANCE - BEGINNING	<u>5,935,346</u>	<u>5,935,346</u>	<u>5,935,346</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 5,267,433</u>	<u>\$ 5,462,433</u>	<u>\$ 5,924,386</u>	<u>\$ 461,953</u>

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

Custer School District No. 16-1
Budgetary Comparison Schedule - Capital Outlay Fund - Budgetary Basis
For the Year Ended June 30, 2020

	Budgeted Original	Budgeted Amounts Final	Actual (Budgetary Basis)	Variance Positive (Negative)
REVENUES				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 2,869,732	\$ 3,029,732	\$ 3,028,947	\$ (785)
Penalties and Interest on Taxes	4,000	4,000	7,904	3,904
Earnings on Deposits	-	40,000	40,598	598
Total Revenue from Local Sources	<u>2,873,732</u>	<u>3,073,732</u>	<u>3,077,449</u>	<u>3,717</u>
Revenue from Federal Sources:				
Restricted Grants-in-aid	<u>81,630</u>	<u>81,630</u>	<u>42,761</u>	<u>(38,869)</u>
Total Revenue	<u>2,955,362</u>	<u>3,155,362</u>	<u>3,120,210</u>	<u>(35,152)</u>
EXPENDITURES				
Instructional Services:				
Regular Programs	432,156	570,156	562,930	7,226
Special Programs	4,000	17,000	18,511	(1,511)
Total Instructional Services	<u>436,156</u>	<u>587,156</u>	<u>581,441</u>	<u>5,715</u>
Support Services:				
Instructional Staff	8,800	8,800	2,721	6,079
Business	667,327	1,609,463	1,566,415	43,048
Total Support Services	<u>676,127</u>	<u>1,618,263</u>	<u>1,569,136</u>	<u>49,127</u>
Cocurricular Activities:				
Transportation	-	-	8,988	(8,988)
Combined Activities	35,585	35,585	58,275	(22,690)
Total Cocurricular Activities	<u>35,585</u>	<u>35,585</u>	<u>67,263</u>	<u>(31,678)</u>
Debt Services				
	<u>1,394,451</u>	<u>7,680,451</u>	<u>5,601,964</u>	<u>2,078,487</u>
Total Expenditures	<u>2,542,319</u>	<u>9,921,455</u>	<u>7,819,804</u>	<u>2,101,651</u>

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

	Budgeted Original	Budgeted Amounts Final	Actual (Budgetary Basis)	Variance Positive (Negative)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>413,043</u>	<u>(6,766,093)</u>	<u>(4,699,594)</u>	<u>2,066,499</u>
OTHER FINANCING SOURCES (USES)				
Debt Proceeds Net of Discounts and Costs	-	7,051,136	10,774,475	3,723,339
Transfer Out	(411,000)	(411,000)	(411,000)	-
Compensation for Loss of General Capital Assets	<u>-</u>	<u>70,000</u>	<u>69,435</u>	<u>(565)</u>
Total Other Financing Sources (Uses)	<u>(411,000)</u>	<u>6,710,136</u>	<u>10,265,117</u>	<u>3,554,981</u>
NET CHANGE IN FUND BALANCES	2,043	(55,957)	5,565,523	5,621,480
FUND BALANCE - BEGINNING	<u>5,844,275</u>	<u>5,844,275</u>	<u>5,844,275</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 5,846,318</u>	<u>\$ 5,788,318</u>	<u>\$ 11,409,798</u>	<u>\$ 5,621,480</u>

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

Custer School District No. 16-1
Budgetary Comparison Schedule - Special Education Fund -
Budgetary Basis
For the Year Ended June 30, 2020

	Budgeted Original	Budgeted Amounts Final	Actual (Budgetary Basis)	Variance Positive (Negative)
REVENUES				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	\$ 1,547,501	\$ 1,547,501	\$ 1,718,069	\$ 170,568
Penalties and Interest on Taxes	2,000	2,000	4,135	2,135
Other Local Revenue	3,200	3,200	16,329	13,129
Total Revenue from Local Sources	<u>1,552,701</u>	<u>1,552,701</u>	<u>1,738,533</u>	<u>185,832</u>
Revenue from Federal Sources:				
Restricted Grants-in-aid	<u>253,700</u>	<u>253,700</u>	<u>229,840</u>	<u>(23,860)</u>
Total Revenue	<u>1,806,401</u>	<u>1,806,401</u>	<u>1,968,373</u>	<u>161,972</u>
EXPENDITURES				
Instructional Services:				
Special Programs	<u>1,177,206</u>	<u>1,177,206</u>	<u>1,049,247</u>	<u>127,959</u>
Total Instructional Services	<u>1,177,206</u>	<u>1,177,206</u>	<u>1,049,247</u>	<u>127,959</u>
Support Services:				
Pupils	297,600	297,600	247,628	49,972
Special Education	<u>229,842</u>	<u>229,842</u>	<u>223,916</u>	<u>5,926</u>
Total Support Services	<u>527,442</u>	<u>527,442</u>	<u>471,544</u>	<u>55,898</u>
Other Nonprogrammed Costs:				
Compensated Absence Payments	<u>74,452</u>	<u>74,452</u>	<u>74,452</u>	<u>-</u>
Total Expenditures	<u>1,779,100</u>	<u>1,779,100</u>	<u>1,595,243</u>	<u>183,857</u>
NET CHANGE IN FUND BALANCES	27,301	27,301	373,130	345,829
FUND BALANCE - BEGINNING	<u>505,381</u>	<u>505,381</u>	<u>505,381</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 532,682</u>	<u>\$ 532,682</u>	<u>\$ 878,511</u>	<u>\$ 345,829</u>

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

Custer School District No. 16-1
Schedule of Changes in Total OPEB Liability and Related Ratios
For the Years Ended June 30

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Service Cost	\$ -	\$ -	\$ 639
Interest on Total OPEB Liability	-	-	5,336
Changes of Benefit Terms	-	-	(122,314)
Effect of Assumption Changes or Inputs	-	-	(221)
Benefit Payments	<u>-</u>	<u>-</u>	<u>(2,482)</u>
Net Change in Total OPEB Liability	-	-	(119,042)
Total OPEB Liability, Beginning	<u>27,229</u>	<u>27,229</u>	<u>146,271</u>
Total OPEB Liability, Ending	<u>\$ 27,229</u>	<u>\$ 27,229</u>	<u>\$ 27,229</u>
District's Covered-employee Payroll	\$ 5,054,859	\$ 5,000,497	\$ 4,581,768
Total OPEB Liability as a Percentage of Covered-employee Payroll	0.54%	0.54%	0.59%

See independent auditor's report.

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

Year Ending	District's Proportion of Net Pension Liability (Asset)	District's Proportionate Share of Net Pension Liability (Asset) (a)	District's Covered- employee Payroll (b)	District's Proportionate Share of Net Pension Liability (Asset) as a Percentage of its Covered- employee Payroll (a/b)	Plan Fiduciary Net Pension as a Percentage of its Total Pension Liability (Asset)
2020	0.2377414%	\$ (25,194)	\$ 5,054,859	-0.50%	-100.09%
2019	0.2405361%	\$ (5,610)	\$ 5,000,497	-0.11%	-100.02%
2018	0.2356759%	\$ (21,388)	\$ 4,788,439	-0.45%	-100.10%
2017	0.2358488%	\$ 796,674	\$ 4,484,649	17.76%	96.89%
2016	0.2302137%	\$ (976,402)	\$ 4,203,034	-23.23%	-104.10%
2015	0.2301978%	\$ (1,658,481)	\$ 4,025,516	-41.20%	-107.29%

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

See independent auditor's report.

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

*Year	Contractually- required Contribution (a)	Contributions in Relation to the Contractually- required Contribution (b)	Contribution Deficiency (Excess) (a-b)	District's Covered- employee Payroll (c)	Contributions as a Percentage of Covered- employee Payroll (b/c)
2020	\$ 312,566	\$ 312,566	\$ -	\$ 5,203,021	6.00%
2019	\$ 303,292	\$ 303,292	\$ -	\$ 5,054,859	6.00%
2018	\$ 300,031	\$ 300,031	\$ -	\$ 5,000,497	6.00%
2017	\$ 287,307	\$ 287,307	\$ -	\$ 4,788,439	6.00%
2016	\$ 269,080	\$ 269,080	\$ -	\$ 4,484,649	6.00%
2015	\$ 252,183	\$ 252,183	\$ -	\$ 4,203,034	6.00%

*Until a full 10-year trend is compiled, the District will present information for those years for which information is available.

See independent auditor's report.

Custer School District No. 16-1
Notes to the Required Supplementary Information
June 30, 2020

NOTE 1 - BASIS OF PRESENTATION

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

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING

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

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

See independent auditor's report.

Custer School District No. 16-1
Notes to the Required Supplementary Information
June 30, 2020

NOTE 3 - PENSION PLAN

Changes of Benefit Terms

No significant changes

Changes in 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 OLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that if assumed on a long-term basis, results in an FVFR equal to or exceeding 100%. 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. Any recommended changes are anticipated to be first implemented in the June 30, 2022 Actuarial Valuation.

See independent auditor's report.

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SUPPLEMENTARY INFORMATION

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Custer School District No. 16-1
School District Officials
June 30, 2020

BOARD MEMBERS

Chair - Heather Grace
Vice Chair - Michelle Lehman
Bob Morgan Jr.
Jeff Prior
Jared Carson
Travis Hartshorn
Jeff Barnes

SUPERINTENDENT

Mark Naugle

BUSINESS MANAGER

Lisa Fluck

See independent auditor's report.

**Custer School District No. 16-1
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2020**

CFDA Numbers	Direct Award	Major Program	Cluster/Program Name	Pass-through Entity	Pass-through Number	Amount
Child Nutrition Cluster:						
<u>U.S. Department of Agriculture</u>						
Non-cash Assistance (Commodities):						
10 . 555	N	N	National School Lunch Program	S.D. Department of Education	2020G-CANS16001	\$ 20,137
Cash Assistance:						
10 . 553	N	N	School Breakfast Program (Note 3)	S.D. Department of Education	2020G-CANS16001	106,560
10 . 555	N	N	National School Lunch Program (Note 3)	S.D. Department of Education	2020G-CANS16001	210,358
Total Child Nutrition Cluster						<u>337,055</u>
Forest Service Schools and Roads Cluster:						
<u>U.S. Department of Agriculture</u>						
10 . 665	N	N	School and Roads - Grants to States (Note 3)	Custer and Pennington Counties	NA	111,778
10 . 666	N	N	School and Roads - Grants to Counties (Note 3)	Custer and Pennington Counties	NA	774
Total Forest Service Schools and Roads Cluster						<u>112,552</u>
Total Department of Agriculture						<u>449,607</u>
Special Education Cluster (IDEA):						
<u>U.S. Department of Education</u>						
84 . 027	N	Y	Special Education - Grants to States	S.D. Department of Education	2020G-IDEA16001	223,121
84 . 173	N	Y	Special Education - Preschool Grants	S.D. Department of Education	2020G-IDEA16001	6,719
Total Special Education Cluster						<u>229,840</u>
Other Programs						
<u>U.S. Department of Agriculture</u>						
10 . 582	N	N	Fresh Fruits and Vegetables	S.D. Department of Education	2020G-FFVP16001	38,470
Total Department of Agriculture						<u>38,470</u>

See independent auditor's report.

CFDA Numbers	Direct Award	Major Program	Cluster/Program Name	Pass-through Entity	Pass-through Number	Amount
<u>U.S. Department of Interior</u>						
15 . 227	N	N	Distribution of Receipts to State and Local Governments (Note 3)	S.D. Department of Education	NA	<u>18,988</u>
Total Department of Interior						<u>18,988</u>
<u>General Services Administration</u>						
39 . 003	N	N	Donation of Federal Surplus Personal Property (Note 4)	S.D. Federal Property Agency	NA	<u>362</u>
Total General Services Administration						<u>362</u>
<u>U.S. Department of Education</u>						
84 . 010	N	N	Title I Grants to Local Educational Agencies	S.D. Department of Education	2020G-CA16001	241,846
84 . 041	Y	Y	Impact Aid			750,000
84 . 367	N	N	Improving Teacher Quality State Grants	S.D. Department of Education	2020G-CA16001	67,729
84 . 424	N	N	Student Support and Enrichment Program	S.D. Department of Education	2020G-CA16001	<u>27,076</u>
Total Department of Education						<u>1,086,651</u>
<u>U.S. Department of Homeland Security</u>						
97 . 067	N	N	Pass-Through the SD Dept of Public Safety	S.D. Department of Public Safety	NA	<u>11,606</u>
Total Department of Homeland Security						<u>11,606</u>
Total Federal Financial Assistance						<u>\$ 1,835,524</u>

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

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

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

NOTE 4: The amount reported represents 23.3% of the original acquisition cost of the federal surplus property received by the District. (Original acquisition cost is provided by Federal Surplus Property. It is not what the District actually paid for the item.)

NOTE 5: No funds were passed down to subrecipients.

See independent auditor's report.