

CITY OF PHILIP, SOUTH DAKOTA

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
WITH SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2021

CITY OF PHILIP

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Philip, South Dakota

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Philip, South Dakota (the City), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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 the City, as of December 31, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

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Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, we:

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedule, the schedule of the City's proportionate share of net pension (asset)/liability, and the schedule of the City's contributions as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires 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.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2022, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Wohlschlag Ritzman + Co., LLC

Yankton, South Dakota
December 19, 2022

CITY OF PHILIP

STATEMENT OF NET POSITION
DECEMBER 31, 2021

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 3,666,987	\$ 1,443,345	\$ 5,110,332
Receivables, net	191,157	164,375	355,532
Inventories	50,667	30,050	80,717
Net pension asset	97,211	24,303	121,514
Capital assets:			
Capital assets not being depreciated	1,493,476	129,845	1,623,321
Capital assets being depreciated, net	<u>5,907,457</u>	<u>2,925,741</u>	<u>8,833,198</u>
Total capital assets	<u>7,400,933</u>	<u>3,055,586</u>	<u>10,456,519</u>
 Total assets	 <u>11,406,955</u>	 <u>4,717,659</u>	 <u>16,124,614</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension related deferred outflows	<u>124,262</u>	<u>31,066</u>	<u>155,328</u>
Total deferred outflows of resources	<u>124,262</u>	<u>31,066</u>	<u>155,328</u>
LIABILITIES			
Accounts payable	4,013	1,626	5,639
Accrued interest payable	6,242	4,955	11,197
Revenue received in advance	-	2,291	2,291
Customer deposits	-	8,956	8,956
Noncurrent liabilities:			
Portion due or payable within one year:			
Bonds payable	30,779	26,771	57,550
Compensated absences	17,490	5,012	22,502
Portion due or payable after one year:			
Bonds payable	1,095,814	949,472	2,045,286
Compensated absences	<u>3,489</u>	<u>1,252</u>	<u>4,741</u>
 Total liabilities	 <u>1,157,827</u>	 <u>1,000,335</u>	 <u>2,158,162</u>
DEFERRED INFLOWS OF RESOURCES			
Pension related deferred inflows	<u>188,229</u>	<u>47,057</u>	<u>235,286</u>
Total deferred inflows of resources	<u>188,229</u>	<u>47,057</u>	<u>235,286</u>
NET POSITION			
Net investment in capital assets	6,274,340	2,079,343	8,353,683
Restricted for:			
SDRS pension	33,244	8,312	41,556
Unrestricted	<u>3,877,577</u>	<u>1,613,678</u>	<u>5,491,255</u>
 Total net position	 <u>\$ 10,185,161</u>	 <u>\$ 3,701,333</u>	 <u>\$ 13,886,494</u>

The accompanying notes are an
integral part of these financial statements

CITY OF PHILIP

STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2021

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 371,162	\$ 8,575	\$ -	\$ -	\$ (362,587)		\$ (362,587)
Public safety	151,910	111	-	-	(151,799)		(151,799)
Public works	446,653	13,713	52,224	13,892	(366,824)		(366,824)
Health and welfare	6,866	-	-	-	(6,866)		(6,866)
Culture and recreation	103,750	-	20,341	-	(83,409)		(83,409)
Conservation and development	7,238	-	-	-	(7,238)		(7,238)
Interest and fiscal charges	34,021	-	-	-	(34,021)		(34,021)
Total governmental activities	<u>1,121,600</u>	<u>22,399</u>	<u>72,565</u>	<u>13,892</u>	<u>(1,012,744)</u>		<u>(1,012,744)</u>
Business-type activities:							
Water	215,104	278,105	-	-		\$ 63,001	63,001
Sewer	176,009	137,116	-	-		(38,893)	(38,893)
Garbage	60,989	69,048	-	-		8,059	8,059
Total business-type activities	<u>452,102</u>	<u>484,269</u>	<u>-</u>	<u>-</u>		<u>32,167</u>	<u>32,167</u>
Total government	<u>\$ 1,573,702</u>	<u>\$ 506,668</u>	<u>\$ 72,565</u>	<u>\$ 13,892</u>	<u>(1,012,744)</u>	<u>32,167</u>	<u>(980,577)</u>
General revenues:							
Taxes:							
Property taxes					536,779	-	536,779
Sales taxes					627,914	-	627,914
State shared revenues					22,801	-	22,801
Grants and contributions					10,450	73,401	83,851
Unrestricted investment earnings					11,570	5,292	16,862
Miscellaneous					67,785	8,375	76,160
Loss on sale of assets					(73)	-	(73)
Total general revenues and transfers					<u>1,277,226</u>	<u>87,068</u>	<u>1,364,294</u>
Change in net position					264,482	119,235	383,717
Net position - beginning					<u>9,920,679</u>	<u>3,582,098</u>	<u>13,502,777</u>
Net position - ending					<u>\$ 10,185,161</u>	<u>\$ 3,701,333</u>	<u>\$ 13,886,494</u>

The accompanying notes are an
integral part of these financial statements

CITY OF PHILIP
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2021

	<u>Major Fund</u> <u>General</u> <u>Fund</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
ASSETS		
Cash and cash equivalents	\$ 3,666,987	\$ 3,666,987
Receivables, (net of allowances for uncollectibles, if any):		
Accounts	3,073	3,073
Property taxes	3,088	3,088
Special assessments	27,072	27,072
Due from other governments	157,924	157,924
Inventories:		
Supplies	<u>50,667</u>	<u>50,667</u>
 Total assets	 <u>\$ 3,908,811</u>	 <u>\$ 3,908,811</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ <u>4,013</u>	\$ <u>4,013</u>
Total liabilities	<u>4,013</u>	<u>4,013</u>
 Deferred inflows of resources:		
Unavailable revenue - property taxes	3,088	3,088
Unavailable revenue - special assessments	<u>27,072</u>	<u>27,072</u>
Total deferred inflows of resources	<u>30,160</u>	<u>30,160</u>
 Fund balances:		
Nonspendable:		
Inventory	50,667	50,667
Committed:		
Rubble site expansion	113,188	113,188
Capital outlay	1,198,458	1,198,458
Assigned:		
Next year's budget	42,900	42,900
Unassigned:	<u>2,469,425</u>	<u>2,469,425</u>
Total fund balances	<u>3,874,638</u>	<u>3,874,638</u>
 Total liabilities, deferred inflows of resources, and fund balances	 <u>\$ 3,908,811</u>	 <u>\$ 3,908,811</u>

The accompanying notes are an
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CITY OF PHILIP

RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2021

Total fund balances for governmental funds	\$ 3,874,638
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Total net position reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$ 97,770	
Construction in progress	1,395,706	
Building and improvements, net of \$1,640,349 accumulated depreciation	1,160,579	
Equipment, net of \$622,868 accumulated depreciation	234,752	
Infrastructure, net of \$3,150,451 accumulated depreciation	<u>4,512,126</u>	
Total capital assets		7,400,933

Assets such as taxes receivable and special assessment receivables are not available to pay for current period expenditures and therefore are deferred in the funds.	30,160
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Pension related deferred outflows are components of the net pension (asset)/liability and therefore are not reported in the funds.	124,262
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Long-term liabilities, including bonds payable and accrued leave payable are not due and payable in the current period and therefore are not reported in the funds. Balances at December 31, 2021 are:

Bonds payable	(1,126,593)	
Accrued interest	(6,242)	
Compensated absences	(20,979)	
Net pension asset	<u>97,211</u>	
Total long-term liabilities		(1,056,603)

Pension related deferred inflows are components of the net pension (asset)/liability and therefore are not reported in the funds.	<u>(188,229)</u>
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Total net position of governmental activities	<u>\$ 10,185,161</u>
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The accompanying notes are an
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CITY OF PHILIP

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2021

	Major Fund General Fund	Total Governmental Funds
REVENUES		
Taxes	\$ 1,165,782	\$ 1,165,782
Licenses and permits	8,575	8,575
Intergovernmental revenue	86,652	86,652
Charges for goods and services	30,133	30,133
Fines and forfeits	112	112
Miscellaneous revenue	100,908	100,908
Total revenues	<u>1,392,162</u>	<u>1,392,162</u>
EXPENDITURES		
Current:		
General government	380,973	380,973
Public safety	152,959	152,959
Public works	133,546	133,546
Health and welfare	6,866	6,866
Culture and recreation	79,966	79,966
Conservation and development	7,238	7,238
Debt service:		
Principal	30,779	30,779
Interest and other fiscal charges	34,196	34,196
Capital outlay	115,668	115,668
Total expenditures	<u>942,191</u>	<u>942,191</u>
Net change in fund balances	449,971	449,971
Changes in nonspendable	4,964	4,964
Fund balances - beginning	<u>3,419,703</u>	<u>3,419,703</u>
Fund balances - ending	<u>\$ 3,874,638</u>	<u>\$ 3,874,638</u>

The accompanying notes are an
integral part of these financial statements

CITY OF PHILIP

RECONCILIATION OF STATEMENT OF THE REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2021

Net change in fund balances - total governmental funds	\$	449,971
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The change in net position reported for governmental activities in the statement of activities is 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 depreciation expense (\$357,032) exceeded capital outlay (\$115,668) in the current period.		(241,364)
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Governmental funds recognize property taxes and special assessments as revenue in the fiscal period for which they were levied provided they are collected within 45 days, but the statement of activities includes property taxes and special assessments as revenue in the period for which the taxes are levied.		(6,007)
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Individual governmental funds recognize inventory using the purchase method. In the the government-wide financial statements, however, inventory is presented using the consumption method. This adjustment recognizes the change in inventory in the individual governmental funds.		4,964
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Bond proceeds are reported as financing sources in governmental funds and thus contributed to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not effect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.

Repayments: Bonds		30,779
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In the statement of activities, the loss of the disposal of assets (\$73) is reported, whereas, in the governmental funds, the proceeds (\$-0-) from the disposal of capital assets is reflected, regardless of whether a gain or loss is realized.		(73)
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Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. The adjustment combines the net change of these balances.

Accrued interest	\$	175	
Compensated absences		883	1,058

Changes in the net pension asset and the pension related deferred inflows and outflows are direct components of pensions asset and are not reflected in the governmental funds.		25,154
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Change in net position of governmental activities	\$	264,482
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The accompanying notes are an
integral part of these financial statements

CITY OF PHILIP

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2021

	Enterprise Funds			
	Major Funds		Nonmajor Fund	
	Water	Sewer	Garbage	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 755,140	\$ 572,323	\$ 115,882	\$ 1,443,345
Receivables, (net of allowances for uncollectibles, if any):				
Accounts	28,962	17,281	8,731	54,974
Due from other governments	-	109,401	-	109,401
Inventories - supplies	28,519	1,531	-	30,050
Total current assets	<u>812,621</u>	<u>700,536</u>	<u>124,613</u>	<u>1,637,770</u>
Noncurrent assets:				
Net pension asset	15,797	8,506	-	24,303
Capital assets:				
Land	-	30,757	-	30,757
Construction in progress	91,941	7,147	-	99,088
Buildings and improvements	2,526,114	2,947,394	4,380	5,477,888
Machinery and equipment	195,298	77,627	-	272,925
Less accumulated depreciation	<u>(1,241,364)</u>	<u>(1,579,328)</u>	<u>(4,380)</u>	<u>(2,825,072)</u>
Total noncurrent assets	<u>1,587,786</u>	<u>1,492,103</u>	<u>-</u>	<u>3,079,889</u>
Total assets	<u>2,400,407</u>	<u>2,192,639</u>	<u>124,613</u>	<u>4,717,659</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension related deferred outflows	<u>20,193</u>	<u>10,873</u>	<u>-</u>	<u>31,066</u>
LIABILITIES				
Current liabilities:				
Accounts payable	49	1,529	48	1,626
Accrued interest payable	-	4,955	-	4,955
Revenue received in advance	2,291	-	-	2,291
Customer deposits	8,956	-	-	8,956
Bonds payable - current portion	-	26,771	-	26,771
Compensated absences - current portion	2,506	2,506	-	5,012
Total current liabilities	<u>13,802</u>	<u>35,761</u>	<u>48</u>	<u>49,611</u>
Noncurrent liabilities:				
Bonds payable	-	949,472	-	949,472
Compensated absences	626	626	-	1,252
Total noncurrent liabilities	<u>626</u>	<u>950,098</u>	<u>-</u>	<u>950,724</u>
Total liabilities	<u>14,428</u>	<u>985,859</u>	<u>48</u>	<u>1,000,335</u>
DEFERRED INFLOWS OF RESOURCES				
Pension related deferred inflows	<u>30,587</u>	<u>16,470</u>	<u>-</u>	<u>47,057</u>
NET POSITION				
Net investment in capital assets	1,571,989	507,354	-	2,079,343
Restricted for:				
SDRS pension	5,403	2,909	-	8,312
Unrestricted	<u>798,193</u>	<u>690,920</u>	<u>124,565</u>	<u>1,613,678</u>
Total net position	<u>\$ 2,375,585</u>	<u>\$ 1,201,183</u>	<u>\$ 124,565</u>	<u>\$ 3,701,333</u>

The accompanying notes are an
integral part of these financial statements

CITY OF PHILIP

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2021

	Enterprise Funds			
	Major Funds		Nonmajor Fund	
	Water	Sewer	Garbage	Total
OPERATING REVENUES				
Charges for goods and services:				
Ordinary revenues	\$ 278,105	\$ 82,428	\$ 69,048	\$ 429,581
Revenues securing bond issues	-	54,688	-	54,688
Total operating revenues	<u>278,105</u>	<u>137,116</u>	<u>69,048</u>	<u>484,269</u>
OPERATING EXPENSES				
Personnel services	60,306	62,140	101	122,547
Cost and materials	98,801	2,085	60,888	161,774
Other current expenses	3,656	10,938	-	14,594
Depreciation	<u>52,341</u>	<u>72,296</u>	<u>-</u>	<u>124,637</u>
Total operating expenses	<u>215,104</u>	<u>147,459</u>	<u>60,989</u>	<u>423,552</u>
Operating income (loss)	<u>63,001</u>	<u>(10,343)</u>	<u>8,059</u>	<u>60,717</u>
NONOPERATING REVENUES (EXPENSES)				
Operating grants	-	73,401	-	73,401
Interest income	2,575	2,292	425	5,292
Rental income	-	250	-	250
Other nonoperating revenue	8,125	-	-	8,125
Interest expense	<u>-</u>	<u>(28,550)</u>	<u>-</u>	<u>(28,550)</u>
Total nonoperating revenues (expenses)	<u>10,700</u>	<u>47,393</u>	<u>425</u>	<u>58,518</u>
Change in net position	73,701	37,050	8,484	119,235
Total net position - beginning	<u>2,301,884</u>	<u>1,164,133</u>	<u>116,081</u>	<u>3,582,098</u>
Total net position - ending	<u>\$ 2,375,585</u>	<u>\$ 1,201,183</u>	<u>\$ 124,565</u>	<u>\$ 3,701,333</u>

The accompanying notes are an
integral part of these financial statements

CITY OF PHILIP

STATEMENT OF CASH FLOWS - PAGE 1 OF 2
 PROPRIETARY FUNDS
 YEAR ENDED DECEMBER 31, 2021

	Enterprise Funds			
	Major Funds		Nonmajor Fund	Total
	Water	Sewer	Garbage	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 266,808	\$ 139,977	\$ 69,282	\$ 476,067
Internal activity - payments from other funds	2,830	326	-	3,156
Payments to suppliers	(101,913)	(13,530)	(61,787)	(177,230)
Payments to employees	(66,133)	(66,181)	-	(132,314)
Net cash provided by (used in) operating activities	<u>101,592</u>	<u>60,592</u>	<u>7,495</u>	<u>169,679</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating grants	-	73,401	-	73,401
Net cash provided by (used in) noncapital financing activities	<u>-</u>	<u>73,401</u>	<u>-</u>	<u>73,401</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of capital assets	(87,941)	(7,147)	-	(95,088)
Principal payments on bonds	-	(26,002)	-	(26,002)
Interest payments on bonds	-	(28,687)	-	(28,687)
Other receipts	<u>8,125</u>	<u>250</u>	<u>-</u>	<u>8,375</u>
Net cash provided by (used in) capital and related financing activities	<u>(79,816)</u>	<u>(61,586)</u>	<u>-</u>	<u>(141,402)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment income	<u>2,575</u>	<u>2,292</u>	<u>425</u>	<u>5,292</u>
Net cash provided by (used in) investing activities	<u>2,575</u>	<u>2,292</u>	<u>425</u>	<u>5,292</u>
Net change in cash and cash equivalents	24,351	74,699	7,920	106,970
Balances - beginning of the year	<u>730,789</u>	<u>497,624</u>	<u>107,962</u>	<u>1,336,375</u>
Balances - end of the year	<u>\$ 755,140</u>	<u>\$ 572,323</u>	<u>\$ 115,882</u>	<u>\$ 1,443,345</u>

The accompanying notes are an
 integral part of these financial statements

CITY OF PHILIP

STATEMENT OF CASH FLOWS - PAGE 2 OF 2
 PROPRIETARY FUNDS
 YEAR ENDED DECEMBER 31, 2021

	Enterprise Funds			
	Major Funds		Nonmajor Fund	Total
	Water	Sewer	Garbage	
CASH FLOWS FROM CAPITAL AND RELATED				
Reconciliation of operating income (loss) to net				
cash provided by operating activities:				
Operating income (loss)	\$ 63,001	\$ (10,343)	\$ 8,059	\$ 60,717
Adjustments to reconcile operating income to				
net cash provided by operating activities:				
Depreciation	52,341	72,296	-	124,637
Change in operating assets and liabilities:				
(Increase) decrease in:				
Accounts receivable	(1,127)	3,187	234	2,294
Inventories	1,594	(769)	-	825
Pension related accounts	(4,088)	(2,302)	101	(6,289)
Increase (decrease) in:				
Accounts payable	(1,050)	262	(899)	(1,687)
Revenue received in advance	(3,450)	-	-	(3,450)
Customer deposits	(3,890)	-	-	(3,890)
Accrued leave liabilities	<u>(1,739)</u>	<u>(1,739)</u>	<u>-</u>	<u>(3,478)</u>
 Net cash provided by				
operating activities	<u>\$ 101,592</u>	<u>\$ 60,592</u>	<u>\$ 7,495</u>	<u>\$ 169,679</u>

The accompanying notes are an
 integral part of these financial statements

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The reporting entity of the City of Philip, South Dakota (the City), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

Basis of Presentation

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation, continued

Fund Financial Statements, continued:

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

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

Governmental Funds:

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

Proprietary Funds:

Enterprise Funds – Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria are met. Governments should apply each of these criteria in the context of the activity's principal revenue sources.

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

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation, continued

Fund Financial Statements, continued:

The City reports the following **major governmental funds**:

General Fund – See the description above. The General Fund is always considered to be a major fund.

The City reports the following **major enterprise funds**:

Water Fund – financed primarily by user charges this fund accounts for the construction and operation of the municipal water system and related facilities

Sewer Fund – financed primarily by user charges this fund accounts for the construction and operation of the municipal waste water system and related facilities.

The remaining enterprise fund is not considered a major fund: Garbage Fund.

Measurement Focus and Basis of Accounting

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

Measurement Focus:

Government-wide Financial Statements:

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

Fund Financial Statements:

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

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Measurement Focus and Basis of Accounting, continued

Basis of Accounting:

Government-wide Financial Statements:

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

Fund Financial Statements:

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the City, the length of that cycle is 45 days. The revenues which are accrued at December 31, 2021 are property taxes, special assessments and sales taxes.

Under the modified accrual basis of accounting, receivables 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. Unavailable revenues, where asset recognition criteria have been met but for which revenue recognition criteria have not been met, are reported as a deferred inflow of resources.

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

All proprietary 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.

Cash and Cash Equivalents

For the purpose of financial reporting, the City includes all cash accounts not subject to withdrawal restrictions or penalties, treasury bills, and money market funds with an original maturity of three months or less as cash and cash equivalents. Certificates of deposit, regardless of maturity, are not considered to be cash and cash equivalents.

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Inventories

Inventory in the General Fund consists of expendable supplies held for consumption. Supply inventories are recorded at cost.

Inventory in the proprietary funds is recorded as an asset when acquired. The consumption of inventories is charged to expense as it is consumed. Inventories are recorded at the lower of cost or market, on the first-in, first-out cost flow assumption.

Government-wide Financial Statements:

In the government-wide financial statements, inventory is recorded as an asset at the time of purchase and charged to expense as it is consumed.

Fund Financial Statements:

In the fund financial statements, purchases of supply inventory items are recorded as expenditures at the time individual inventory items are purchased. Reported inventories are equally offset by a nonspendable fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

Capital Assets

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

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

Government-wide Financial Statements:

Capital assets are recorded at historical cost, or estimated cost, where actual cost could not be determined. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant, and which extend the useful life of a capital asset are also capitalized.

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Capital Assets, continued

The total December 31, 2021 balance of governmental activities capital assets includes approximately 20 percent for which the costs were determined by estimates of the historical costs. The total December 31, 2021 balance of business-type capital assets includes approximately 5 percent for which the costs were determined by estimations of the historical cost. These estimated historical costs were established by reviewing applicable historical costs of similar items and basing the estimations thereon, or deflated current replacement costs.

Infrastructure assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalks, drainage systems, and lighting systems, acquired prior to January 1, 2004, were not required to be capitalized by the City. Infrastructure assets acquired since January 1, 2004 are recorded at cost, and classified as "Infrastructure."

Depreciation of all exhaustible capital assets is charged as an allocated expense against operations in the government-wide statement of activities, and in the proprietary fund financial statements. Accumulated depreciation is reported on the government-wide statement of net position and on each proprietary fund's statement of net position.

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land & land rights	All	- N/A -	- N/A -
Buildings	\$ 25,000	Straight-line	15 – 99 Years
Improvements	\$ 10,000	Straight-line	10 – 50 Years
Machinery	\$ 15,000	Straight-line	3 – 15 Years
Infrastructure	\$ 25,000	Straight-line	5 – 40 Years
Furniture and equipment	\$ 5,000	Straight-line	5 – 15 Years

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements:

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

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Long-Term Liabilities

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

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide financial statements. The long-term liabilities primarily consist of revenue bonds and compensated absences.

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 in the fund statements as in the government-wide financial statements.

Deferred Inflows and Deferred Outflows of Resources

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

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period.

Pensions

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

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Program Revenues

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

1. Charges for services – These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program – specific operating grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
3. Program – specific capital grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

Proprietary Funds Revenue and Expense Classifications

In the proprietary fund's Statement of Revenues, Expenses and Changes in Net Position, revenues and expenses are reported 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.

Equity Classifications

Government-wide Financial Statements:

Equity is classified as net position and is displayed in three components:

1. Net investment in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Equity Classifications, continued

Government-wide Financial Statements, continued:

3. Unrestricted net position – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between “Nonspendable”, “Restricted”, “Committed”, “Assigned”, and “Unassigned” components. Proprietary fund equity is classified the same as in the government-wide financial statements.

Application of Net Position

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

Fund Balance Classification Policies and Procedures

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

1. Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
2. Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
3. Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority and does not lapse at year-end.
4. Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted nor committed. Fund Balance may be assigned by the City Council.

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Fund Balance Classification Policies and Procedures, continued

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

The City does not have a formal minimum fund balance policy.

Property Taxes

Property taxes are levied on or before October 1, of the year preceding the start of the fiscal year. They attach as an enforceable lien on property, and become due and payable as of the following January 1, the first day of the fiscal year. Taxes are payable in two installments on or before April 30 and October 31 of the fiscal year. The City is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the City.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expense during the reporting period. Actual results could differ from those estimates.

2. DEPOSITS AND INVESTMENTS

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

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

2. DEPOSITS AND INVESTMENTS, continued

Deposits – The City’s cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2, and may be in the form of demand or time deposits. Qualified public 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 Federal Deposit Insurance Corporation (FDIC) and National Credit Union Administration (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 City funds to be invested 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); or (c) in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

Custodial Credit Risk – Deposits – The risk that, in the event of a depository failure, the City’s deposits may not be returned to it. The City has adopted a formal investment policy. It requires all depositories to provide full insurance or collateralization of all deposits and provide a report evidencing collateralization to the City. As of December 31, 2021, the City’s deposits were fully insured or collateralized and were not exposed to custodial credit risk.

Investments – As of December 31, 2021, the City had no investments.

Authorized Investments by the City – The City has adopted a formal investment policy. It does not further limit investments beyond those imposed by statutes.

Credit Risk – State law limits eligible investments for the City, as discussed above. The City has adopted a formal investment policy. It does not further limit its investment choices.

Concentration of Credit Risk – The City has adopted a formal investment policy. It places no limit on the amount that may be invested in any one issuer.

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

2. DEPOSITS AND INVESTMENTS, continued

Interest Rate Risk – The City has adopted a formal investment policy. It does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. It does require at least an amount equal to a historical average of two months worth of City expenditures be accessible for use by the City in one day's notice.

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

3. RECEIVABLES

Receivables are not aggregated in these financial statements. The City expects all receivables to be collected within one year. Allowances for uncollectible accounts receivable in the proprietary funds are calculated based on historical trend data. The other funds receivables are stated at face value. For the year ended December 31, 2021, the allowance for doubtful accounts in the proprietary funds was \$0-.

4. CHANGES IN CAPITAL ASSETS

A summary of changes in governmental activities' capital assets for the year ended December 31, 2021 is as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<i>Governmental Activities:</i>				
<i>Capital assets not being depreciated</i>				
Land	\$ 97,770	\$ -	\$ -	\$ 97,770
Construction in progress	1,358,951	36,755	-	1,395,706
Total capital assets not being depreciated	<u>1,456,721</u>	<u>36,755</u>	<u>-</u>	<u>1,493,476</u>
<i>Capital assets being depreciated</i>				
Infrastructure	7,662,577	-	-	7,662,577
Buildings and improvements	2,800,928	-	-	2,800,928
Equipment	787,412	78,913	(8,705)	857,620
Total capital assets being depreciated	<u>11,250,917</u>	<u>78,913</u>	<u>(8,705)</u>	<u>11,321,125</u>

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

4. CHANGES IN CAPITAL ASSETS, continued

	Beginning Balances	Increases	Decreases	Ending Balances
Less accumulated depreciation for:				
Infrastructure	2,913,800	236,651	-	3,150,451
Buildings and improvements	1,554,725	85,624	-	1,640,349
Equipment	596,743	34,757	(8,632)	622,868
Total accumulated depreciation	<u>5,065,268</u>	<u>357,032</u>	<u>(8,632)</u>	<u>5,413,668</u>
Total capital assets being depreciated, net	<u>6,185,649</u>	<u>(278,119)</u>	<u>(73)</u>	<u>5,907,457</u>
Governmental activities capital assets, net	<u>\$ 7,642,370</u>	<u>\$ (241,364)</u>	<u>\$ (73)</u>	<u>\$ 7,400,933</u>

Depreciation expense was charged to functions as follows:

Governmental Activities:

General Government	\$ 500
Public Safety	5,458
Public Works	327,289
Culture and Recreation	<u>23,785</u>

Total Depreciation Expense - Governmental Activities \$ 357,032

A summary of changes in business-type activities' capital assets for the year ended December 31, 2021 is as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<i>Business-Type Activities:</i>				
<i>Capital assets not being depreciated</i>				
Land	\$ 30,757	\$ -	\$ -	\$ 30,757
Construction in progress	4,000	95,088	-	99,088
Total capital assets not being depreciated	<u>34,757</u>	<u>95,088</u>	<u>-</u>	<u>129,845</u>
<i>Capital assets being depreciated</i>				
Buildings and improvements	5,477,888	-	-	5,477,888
Equipment	272,925	-	-	272,925
Total capital assets being depreciated	<u>5,750,813</u>	<u>-</u>	<u>-</u>	<u>5,750,813</u>

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

4. CHANGES IN CAPITAL ASSETS, continued

	Beginning Balances	Increases	Decreases	Ending Balances
Less accumulated depreciation for:				
Buildings and improvements	2,481,559	113,932	-	2,595,491
Equipment	218,876	10,705	-	229,581
Total accumulated depreciation	<u>2,700,435</u>	<u>124,637</u>	<u>-</u>	<u>2,825,072</u>
Total capital assets being depreciated, net	<u>3,050,378</u>	<u>(124,637)</u>	<u>-</u>	<u>2,925,741</u>
Business-type activities capital assets, net	<u>\$ 3,085,135</u>	<u>\$ (29,549)</u>	<u>\$ -</u>	<u>\$ 3,055,586</u>

Depreciation expense was charged to functions as follows:

Business-Type Activities:

Water Fund	\$ 52,341
Sewer Fund	<u>72,296</u>

Total Depreciation Expense - Business-Type Activities \$124,637

Construction in progress at December 31, 2021 is composed of the following:

Project Name	As of 12/31/2021
Governmental Activities:	
Artesian Well Relining	\$ 36,755
Pine St. Phase III Project	71,029
Airport Project	<u>1,287,922</u>
Total	<u>\$ 1,395,706</u>

Project Name	As of 12/31/2021
Business-Type Activities:	
West Lift Station Control Panel	\$ 2,147
NE Philip Wastewater System Improvements	5,000
Meter Project	<u>91,941</u>
Total	<u>\$ 99,088</u>

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

4. CHANGES IN CAPITAL ASSETS, continued

The Artesian Well Relining Project is a project for relining the artesian well. Total cost is estimated at \$240,920 to be paid from the General Fund.

The Pine Street Phase III Project is a Street and Infrastructure Improvement Project. An overlay of the project area was completed in 2013, but a complete rebuild may be considered in future years. Total cost is estimated at \$2,026,700.

The Airport Improvement Projects are for apron design and construction and hangar design and construction. Total cost is estimated at \$1,350,000.

The West Lift Station Control Panel repairs were completed in early 2022. The total cost of the project was \$2,147.

The NE Philip Wastewater System Improvements Project is an area sewer relining and manhole replacement project. Total cost is estimated at \$353,500 and will be paid out of the Sewer Fund.

The Meter Project is a Flex Net light system with an estimated cost at \$110,075. The project will be funded through Water Fund operations.

5. LONG-TERM LIABILITIES

A summary of the changes in long-term debt as of December 31, 2021 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<i>Governmental Activities:</i>					
Bonds Payable:					
Revenue Bonds	\$ 1,157,372	\$ -	\$ (30,779)	\$ 1,126,593	\$ 30,779
Compensated Absences	21,862	16,607	(17,490)	20,979	17,490
Total Long-Term Liabilities -					
Governmental Activities	1,179,234	16,607	(48,269)	1,147,572	48,269
<i>Business-Type Activities:</i>					
Bonds Payable:					
Revenue Bonds	1,002,245	-	(26,002)	976,243	26,771
Compensated Absences	9,742	4,316	(7,794)	6,264	5,012
Total Long-Term Liabilities -					
Business-Type Activities	1,011,987	4,316	(33,796)	982,507	31,783
Total Government	\$ 2,191,221	\$ 20,923	\$ (82,065)	\$ 2,130,079	\$ 80,052

CITY OF PHILIP

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

5. LONG-TERM LIABILITIES, continued

Long-term liabilities at December 31, 2021 are comprised of the following:

Governmental Activities:

Revenue Bonds:

\$1,073,300 Clean Water SRF Loan
dated 5-24-2013; final maturity date
July 15, 2044; 3.25% interest rate;
\$10,595 quarterly payment is paid
from the General Fund. \$ 726,482

\$414,302 Sales Tax Borrow Series 2018
SRF Loan dated 8-1-2020; final maturity
date May 15, 2050; 2.50% interest rate;
\$4,918 quarterly payment is paid
from the General Fund. 400,111

Compensated Absences:

Vacation and sick leave payable to
City employees as of December 31,
2021; payments made from department that
employees' normal salaries are paid. 20,979

Total Governmental Activities \$ 1,147,572

Business-Type Activities:

\$750,000 Clean Water SRF Loan
dated 5-24-2013; final maturity date
July 15, 2044; 3.25% interest rate;
\$7,391 quarterly payment is paid
from the Sewer Fund. \$ 507,063

\$485,821 Clean Water SRF Loan
dated 8-1-2020; final maturity date
May 15, 2050; 2.50% interest rate;
\$5,767 quarterly payment is paid
from the Sewer Fund. 469,180

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

5. LONG-TERM LIABILITIES, continued

Compensated Absences:

Vacation and sick leave payable to
City employees as of December 31,
2021; payments made from fund that
employees' normal salaries are paid.

6,264

Total Business-Type Activities

\$ 982,507

The annual requirements to amortize debt outstanding as of December 31, 2021, except for compensated absences, are as follows:

Year Ending December 31,	Governmental Activities		
	Revenue Bonds		
	Principal	Interest	Total
2022	\$ 30,779	\$ 33,257	\$ 64,036
2023	32,688	32,288	64,976
2024	33,686	31,289	64,975
2025	34,716	30,260	64,976
2026	35,777	29,198	64,975
2027 - 2031	195,998	128,880	324,878
2032 - 2036	227,932	96,946	324,878
2037 - 2041	265,144	59,733	324,877
2042 - 2046	203,206	19,735	222,941
2047 - 2050	66,667	3,123	69,790
Total	<u>\$ 1,126,593</u>	<u>\$ 464,709</u>	<u>\$ 1,591,302</u>

Year Ending December 31,	Business-Type Activities		
	Revenue Bonds		
	Principal	Interest	Total
2022	\$ 26,771	\$ 27,917	\$ 54,688
2023	27,564	27,124	54,688
2024	28,381	26,307	54,688
2025	29,223	25,465	54,688
2026	30,090	24,598	54,688
2027 - 2031	164,394	109,046	273,440
2032 - 2036	190,345	83,095	273,440
2037 - 2041	220,466	52,974	273,440
2042 - 2046	181,935	20,358	202,293
2047 - 2050	77,074	3,661	80,735
Total	<u>\$ 976,243</u>	<u>\$ 400,545</u>	<u>\$ 1,376,788</u>

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

6. PENSION PLAN

Plan Information

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

Benefits Provided

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

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

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

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

6. PENSION PLAN, continued

Benefits Provided, 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 City's share of contributions to the SDRS for the fiscal years ended December 31, 2021, 2020 and 2019 was \$21,468, \$20,975, and \$20,503 respectively, equal to the required contributions each year.

Pension (Asset)/Liability, Pension (Revenue) Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions:

At June 30, 2021, SDRS is 105.53% funded and accordingly has a net pension asset.

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

6. PENSION PLAN, continued

Pension (Asset)/Liability, Pension (Revenue) Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions, continued:

The proportionate share of the components of the net pension asset of the South Dakota Retirement System, for the City as of the measurement period ending June 30, 2021 and reported by the City as of December 31, 2021 are as follows:

Proportionate share of pension liability	\$2,200,177
Less proportionate share of net pension restricted for pension benefits	<u>2,321,691</u>
Proportionate share of net pension (asset)/liability	<u>\$ (121,514)</u>

At December 31, 2021, the City reported an (asset)/liability of (\$121,514) for its proportionate share of the net pension (asset)/liability. The net pension (asset)/liability was measured as of June 30, 2021 and the total pension (asset)/liability used to calculate the net pension (asset)/liability was based on a projection of the City's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2021, the City's proportion was 0.01586700% which was an increase of 0.0001141% from its proportion measured as of June 30, 2020.

For the year ended December 31, 2021, the City recognized reduction of pension expense of \$31,441. At December 31, 2021, the City 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
Differences between expected and actual experience	\$ 4,363	\$ 319
Changes in assumptions	139,740	60,852
Net difference between projected and actual earnings on pension plan investments	-	173,585
Changes in proportion and difference between the City's contributions and proportionate share of contributions	640	530
City contributions subsequent to the measurement date	<u>10,585</u>	<u>-</u>
Total	<u>\$ 155,328</u>	<u>\$ 235,286</u>

CITY OF PHILIP

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

6. PENSION PLAN, continued

Pension (Asset)/Liability, Pension (Revenue) Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions, continued:

\$10,585 reported as deferred outflow of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension (asset)/liability in the year ending December 31, 2022. 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 December 31	
2022	\$ (22,494)
2023	(15,052)
2024	(4,165)
2025	<u>(48,833)</u>
Total	<u>\$ (90,544)</u>

Actuarial Assumptions

The total pension liability/(asset) in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25 percent
Salary Increases	Graded by years of service, from 6.50% at entry to 3.00% after 25 years of service
Discount Rate	6.50% net of pension plan investment expense. This is composed of an average inflation rate of 2.25% and real returns of 4.25%
Future COLAs	2.25%

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

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period of July 1, 2011 to June 30, 2016.

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

6. PENSION PLAN, continued

Actuarial Assumptions, continued:

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of 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, 2021 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	58.0%	4.3%
Fixed Income	30.0%	1.6%
Real Estate	10.0%	4.6%
Cash	2.0%	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 plan member contributions will be made at the current contribution rate and that matching employer contributions will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

6. PENSION PLAN, continued

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

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
City's proportionate share of the net pension (asset) liability	\$ 196,762	\$ (121,514)	\$ (379,880)

Pension Plan Fiduciary Net Position

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

7. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2021, the City managed its risks as follows:

Employee Health Insurance

The City purchases health insurance for its employees from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Property Insurance

The City purchases insurance coverage for its buildings and contents from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

7. RISK MANAGEMENT, continued

Liability Insurance

The City purchases liability insurance for risks related to torts and errors and omission of public officials and airport liability from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Worker's Compensation

The City purchases liability insurance for worker's compensation from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

Unemployment Benefits

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

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF PHILIP

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND - PAGE 1 OF 2
YEAR ENDED DECEMBER 31, 2021**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	
REVENUES				
Taxes:				
General property taxes	\$ 554,650	\$ 554,650	\$ 536,981	\$ (17,669)
General sales and use taxes	520,000	520,000	627,914	107,914
Amusement taxes	100	100	-	(100)
Penalties and interest on delinquent taxes	500	500	887	387
Licenses and permits	8,250	8,250	8,575	325
Intergovernmental revenue:				
Federal grants	100,000	100,000	9,000	(91,000)
State grants	5,500	5,500	2,628	(2,872)
State shared revenues	65,800	65,800	69,865	4,065
County shared revenues	5,210	5,210	5,159	(51)
Charges for goods and services:				
Sanitation	9,100	9,100	9,792	692
Health	2,000	2,000	-	(2,000)
Culture and recreation	18,500	18,500	20,341	1,841
Fines and forfeits:				
Court fines and costs	500	500	112	(388)
Miscellaneous revenue:				
Interest earned	25,000	25,000	11,569	(13,431)
Rentals	1,950	1,950	3,921	1,971
Special assessments	6,700	6,700	7,182	482
Contributions and donations from private sources	50	99,550	10,450	(89,100)
Other	37,050	37,050	23,553	(13,497)
Airport	38,790	38,790	44,233	5,443
Total revenues	<u>1,399,650</u>	<u>1,499,150</u>	<u>1,392,162</u>	<u>(106,988)</u>
EXPENDITURES				
General government:				
Legislative	43,500	46,380	45,054	1,326
Contingency	73,500	73,500		
(Amount transferred)		(40,000)	-	33,500
Executive	105,700	105,710	101,121	4,589
Elections	600	600	-	600
Financial administration	117,000	117,230	90,999	26,231
Other	147,250	153,670	143,799	9,871
Public safety:				
Police	214,000	217,650	133,317	84,333
Fire	18,000	27,685	19,346	8,339
Other protection	1,900	1,900	296	1,604
Public works:				
Highways and streets	289,450	300,250	216,953	83,297
Airport	91,500	96,550	55,084	41,466
Water	-	250,000	36,814	213,186
Sanitation	8,100	8,140	5,338	2,802
Health and welfare:				
Health	3,200	3,200	2,730	470
Humane society	150	150	-	150
Ambulance	4,500	4,500	4,136	364

See Independent Auditor's Report

CITY OF PHILIP

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND - PAGE 2 OF 2
YEAR ENDED DECEMBER 31, 2021

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	
EXPENDITURES (continued)				
Culture and recreation:				
Recreation	67,600	83,825	73,675	10,150
Parks	6,450	6,450	3,741	2,709
Libraries	2,550	2,550	2,550	-
Conservation and development:				
Economic opportunity	<u>9,800</u>	<u>9,910</u>	<u>7,238</u>	<u>2,672</u>
Total expenditures	<u>1,204,750</u>	<u>1,469,850</u>	<u>942,191</u>	<u>527,659</u>
 Excess (deficiency) of revenues over expenditures	 <u>194,900</u>	 <u>29,300</u>	 <u>449,971</u>	 <u>420,671</u>
 OTHER FINANCING SOURCES (USES)				
Sale of municipal property	10,000	10,000	-	(10,000)
Compensation for loss of property	<u>1,000</u>	<u>1,000</u>	<u>-</u>	<u>(1,000)</u>
Total other financing sources (uses)	<u>11,000</u>	<u>11,000</u>	<u>-</u>	<u>(11,000)</u>
 Net change in fund balances	205,900	40,300	449,971	409,671
 Changes in nonspendable	-	-	4,964	4,964
 Fund balances - beginning	<u>3,419,703</u>	<u>3,419,703</u>	<u>3,419,703</u>	<u>-</u>
 Fund balances - ending	<u>\$ 3,625,603</u>	<u>\$ 3,460,003</u>	<u>\$ 3,874,638</u>	<u>\$ 414,635</u>

See Independent Auditor's Report

CITY OF PHILIP

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY SCHEDULES DECEMBER 31, 2021

1. BUDGETS AND BUDGETARY ACCOUNTING

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

1. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the City Council, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year-end unless encumbered by resolution of the governing board.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund.

The City did not encumber any amounts at December 31, 2021.

6. Formal budgetary integration is employed as a management control device during the year for the General Fund.
7. Budgets for the General Fund are adopted on a basis consistent with accounting principles generally accepted in the United States (US GAAP).

CITY OF PHILIP

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY SCHEDULES, continued DECEMBER 31, 2021

2. GAAP/BUDGETARY ACCOUNTING BASIS DIFFERENCES

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

CITY OF PHILIP

**SCHEDULE OF THE PROPORTIONATE SHARE
OF THE NET PENSION (ASSET)/LIABILITY**

	South Dakota Retirement System Last 10 Years*				
	2014	2015	2016	2017	2018
City's proportion of the net pension (asset)/liability	0.0168349%	0.0163160%	0.0168442%	0.0157029%	1.6147100%
City's proportionate share of net pension (asset)/liability	\$ (121,289)	\$ (69,201)	\$ 56,898	\$ (1,425)	\$ (377)
City's covered-employee payroll	\$ 269,342	\$ 271,928	\$ 293,355	\$ 295,788	\$ 310,875
City's proportionate share of the net pension (asset)/liability as a percentage of its covered-employee payroll	45.03%	25.45%	19.40%	0.48%	0.12%
Plan fiduciary net position as a percentage of the total pension (asset)/liability	107.30%	104.10%	96.89%	100.10%	100.02%
	2019	2020	2021		
City's proportion of the net pension (asset)/liability	0.0163369%	0.0157529%	0.0158670%		
City's proportionate share of net pension (asset)/liability	\$ (1,731)	\$ (684)	\$ (121,514)		
City's covered-employee payroll	\$ 324,701	\$ 320,308	\$ 336,667		
City's proportionate share of the net pension (asset)/liability as a percentage of its covered-employee payroll	0.53%	0.21%	36.09%		
Plan fiduciary net position as a percentage of the total pension (asset)/liability	100.09%	100.04%	105.52%		

Note: The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension asset which is June 30.

* This schedule is presented to illustrate the requirement to show information for 10 years; however, until a full 10-year trend is compiled, governments should present information for those year which information is available.

See Independent Auditor's Report

CITY OF PHILIP

SCHEDULE OF CONTRIBUTIONS

South Dakota Retirement System

Last 10 Years *

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Contractually required contribution	\$ 18,040	\$ 18,053	\$ 19,327	\$ 19,704	\$ 20,795
Contributions in relation to the contractually required contribution	<u>18,040</u>	<u>\$ 18,053</u>	<u>\$ 19,327</u>	<u>\$ 19,704</u>	<u>\$ 20,795</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 275,059	\$ 274,561	\$ 297,170	\$ 304,308	\$ 322,522
Contributions as a percentage of covered-employee payroll	6.56%	6.58%	6.50%	6.48%	6.45%
	<u>2019</u>	<u>2020</u>	<u>2021</u>		
Contractually required contribution	\$ 20,503	\$ 20,975	\$ 21,468		
Contributions in relation to the contractually required contribution	<u>20,503</u>	<u>20,975</u>	<u>21,468</u>		
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		
City's covered-employee payroll	\$ 318,229	\$ 325,080	\$ 335,441		
Contributions as a percentage of covered-employee payroll	6.44%	6.45%	6.40%		

* This schedule is presented to illustrate the requirement to show information for 10 years; however, until a 10-year trend is compiled, governments should present information for those year which information is available.

See Independent Auditor's Report

CITY OF PHILIP

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION SCHEDULES DECEMBER 31, 2021

Changes from Prior Valuation

The June 30, 2021, Actuarial Valuation reflects no changes in actuarial methods from the June 30, 2020 Actuarial Valuation. One change in actuarial assumptions and one plan provision change are reflected and described below.

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

Benefit Provision Changes

Legislation enacted in 2021 reduced the minimums SDRS COLA from 0.5% to 0%. This change will impact the SDRS COLA only when inflation is very low or when a restricted maximum COLA of 0.5% is not affordable. The change had no impact on the current assets or liabilities of SDRS.

Actuarial Assumption Changes

The SDRS COLA equals the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0% (0.5% prior to 2021) and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%. That condition existed as of June 30, 2020 and the July 2021 SDRS COLA was limited to a restricted maximum of 1.41%. As of June 30, 2021, the FVFR assuming the COLA is equal to the baseline COLA assumption is greater than 100%. The July 2022 SDRS COLA will equal inflation, between 0% and 3.5%. For the June 30, 2020 Actuarial Valuation, future COLAs were assumed to equal the restricted maximum COLA of 1.41%. For this June 30, 2021 Actuarial Valuation, future COLAs are assumed to equal the baseline COLA assumption of 2.25%.

The change in the COLA assumption increased the Actuarial Accrued Liability by \$1,135 million, or 8.9% of the Actuarial Accrued Liability based on the 1.41% restricted maximum COLA.

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

Actuarial Method Changes

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

*Wahlenberg
Ritzman & Co., LLC*
certified public accountants

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

To the Honorable Mayor and
Members of the City Council
City of Philip, 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 the City of Philip, South Dakota (hereinafter referred to as the City), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 19, 2022.

Report on Internal Control over Financial Reporting

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

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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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this report is not suitable for any other purpose. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

Uhlenberg Ritzman + Co., LLC

Yankton, South Dakota
December 19, 2022

CITY OF PHILIP

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2021**

PRIOR AUDIT FINDINGS

There were no prior findings reported.

CITY OF PHILIP

**SCHEDULE OF AUDIT FINDINGS AND RESPONSES
DECEMBER 31, 2021**

There are no financial statement audit findings to report.