

CITY OF PHILIP, SOUTH DAKOTA
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2014

CITY OF PHILIP

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

INDEPENDENT AUDITOR'S REPORT

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

Report on 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 the **City of Philip, South Dakota (the City)**, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2014, 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

Management 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.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 37 and 38 be 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, 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 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 29, 2016 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Uhlenberg Ritzman + Co., LLC

Yankton, South Dakota
February 29, 2016

CITY OF PHILIP

**STATEMENT OF NET POSITION
DECEMBER 31, 2014**

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,260,086	\$ 1,037,840	\$ 2,297,926
Certificates of deposit	73,000	72,000	145,000
Receivables, net	122,660	54,529	177,189
Inventories	43,238	32,061	75,299
Restricted assets:			
Cash and cash equivalents	-	37,000	37,000
Capital assets:			
Capital assets not being depreciated	418,687	30,757	449,444
Capital assets being depreciated, net	4,701,093	3,193,050	7,894,143
Total capital assets	5,119,780	3,223,807	8,343,587
 Total assets	6,618,764	4,457,237	11,076,001
 LIABILITIES			
Accounts payable	3,348	191	3,539
Construction contract retainage payable	23,082	-	23,082
Accrued interest payable	6,675	6,039	12,714
Revenue received in advance	-	1,852	1,852
Customer deposits	-	8,417	8,417
Noncurrent liabilities:			
Portion due or payable within one year:			
Bonds payable	60,473	22,465	82,938
Compensated absences	22,646	10,290	32,936
Portion due or payable after one year:			
Bonds payable	1,059,650	1,154,131	2,213,781
Compensated absences	5,661	2,572	8,233
 Total liabilities	1,181,535	1,205,957	2,387,492
 DEFERRED INFLOWS OF RESOURCES			
Special assessments - not yet due	23,304	-	23,304
Total deferred inflows of resources	23,304	-	23,304
 NET POSITION			
Net investment in capital assets	3,999,657	2,047,211	6,046,868
Restricted for:			
Capital outlay	56,505	-	56,505
Debt covenant	-	37,000	37,000
Unrestricted	1,357,763	1,167,069	2,524,832
 Total net position	\$ 5,413,925	\$ 3,251,280	\$ 8,665,205

The accompanying notes are an
integral part of these financial statements

CITY OF PHILIP
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2014

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	\$ 231,727	\$ 8,195	\$ -	\$ -	\$ (223,532)		\$ (223,532)
Public safety	149,922	408	-	-	(149,514)		(149,514)
Public works	473,795	22,229	45,913	272,989	(132,664)		(132,664)
Health and welfare	2,698	817	-	-	(1,881)		(1,881)
Culture and recreation	82,464	16,902	-	-	(65,562)		(65,562)
Conservation and development	8,886	-	-	-	(8,886)		(8,886)
Interest and fiscal charges *	37,851	-	-	-	(37,851)		(37,851)
Total governmental activities	<u>987,343</u>	<u>48,551</u>	<u>45,913</u>	<u>272,989</u>	<u>(619,890)</u>		<u>(619,890)</u>
Business-type activities:							
Water	235,481	239,551	-	-		\$ 4,070	4,070
Sewer	129,152	107,524	-	-		(21,628)	(21,628)
Garbage	63,420	67,789	-	-		4,369	4,369
Total business-type activities	<u>428,053</u>	<u>414,864</u>	<u>-</u>	<u>-</u>		<u>(13,189)</u>	<u>(13,189)</u>
Total government	<u>\$ 1,415,396</u>	<u>\$ 463,415</u>	<u>\$ 45,913</u>	<u>\$ 272,989</u>	<u>(619,890)</u>	<u>(13,189)</u>	<u>(633,079)</u>
General revenues:							
Taxes:							
Property taxes					375,075	-	375,075
Sales taxes					503,883	-	503,883
State shared revenues					16,099	-	16,099
Grants and contributions					6,675	-	6,675
Rental income					-	115	115
Unrestricted investment earnings					4,559	5,508	10,067
Miscellaneous					49,648	-	49,648
Total general revenues and transfers					<u>955,939</u>	<u>5,623</u>	<u>961,562</u>
Change in net position					<u>336,049</u>	<u>(7,566)</u>	<u>328,483</u>
Net position - beginning					<u>5,077,876</u>	<u>3,258,846</u>	<u>8,336,722</u>
Net position - ending					<u>\$ 5,413,925</u>	<u>\$ 3,251,280</u>	<u>\$ 8,665,205</u>

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

The accompanying notes are an
integral part of these financial statements

CITY OF PHILIP

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2014**

	Major Fund		Total
	General	Capital Project	Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,180,499	\$ 79,587	\$ 1,260,086
Certificates of deposit	73,000	-	73,000
Receivables, (net of allowances for uncollectibles, if any):			
Accounts	5,271	-	5,271
Property taxes	7,526	-	7,526
Special assessments	30,989	-	30,989
Due from other governments	78,874	-	78,874
Inventories:			
Supplies	43,238	-	43,238
Total assets	\$ 1,419,397	\$ 79,587	\$ 1,498,984
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 3,348	\$ -	\$ 3,348
Construction contract retainage payable	-	23,082	23,082
Total liabilities	3,348	23,082	26,430
Deferred inflows of resources:			
Unavailable revenue - property taxes	7,526	-	7,526
Unavailable revenue - special assessments	30,989	-	30,989
Total deferred inflows of resources	38,515	-	38,515
Fund balances:			
Nonspendable:			
Inventory	43,238	-	43,238
Restricted:			
Capital outlay	-	56,505	56,505
Committed:			
Rubble site expansion	67,804	-	67,804
Capital outlay	199,265	-	199,265
Assigned:			
Next year's budget	41,212	-	41,212
Unassigned:	1,026,015	-	1,026,015
Total fund balances	1,377,534	56,505	1,434,039
Total liabilities, deferred inflows of resources, and fund balances	\$ 1,419,397	\$ 79,587	\$ 1,498,984

The accompanying notes are an integral part of these financial statements

CITY OF PHILIP

**RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2014**

Total fund balances for governmental funds	\$ 1,434,039
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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	320,917	
Building and improvements, net of \$874,529 accumulated depreciation	1,631,217	
Equipment, net of \$392,106 accumulated depreciation	220,517	
Infrastructure, net of \$1,944,465 accumulated depreciation	<u>2,849,359</u>	
Total capital assets		5,119,780

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.	15,211
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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, 2014 are:

Bonds payable	(1,120,123)	
Accrued interest	(6,675)	
Compensated absences	<u>(28,307)</u>	
Total long-term liabilities		<u>(1,155,105)</u>

Total net position of governmental activities	<u>\$ 5,413,925</u>
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The accompanying notes are an
integral part of these financial statements

CITY OF PHILIP

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2014**

	<u>Major Fund</u>	<u>Nonmajor Fund</u>	
	<u>General</u>	<u>Capital Project</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes	\$ 888,341	\$ -	\$ 888,341
Licenses and permits	8,195	-	8,195
Intergovernmental revenue	275,212	-	275,212
Charges for goods and services	39,322	-	39,322
Fines and forfeits	408	-	408
Miscellaneous revenue	110,690	7,574	118,264
Total revenues	<u>1,322,168</u>	<u>7,574</u>	<u>1,329,742</u>
EXPENDITURES			
Current:			
General government	224,473	-	224,473
Public safety	143,976	-	143,976
Public works	206,715	30,656	237,371
Health and welfare	2,698	-	2,698
Culture and recreation	60,579	-	60,579
Conservation and development	8,886	-	8,886
Debt service:			
Principal	45,443	-	45,443
Interest and other fiscal charges	41,364	-	41,364
Capital outlay	292,868	12,035	304,903
Total expenditures	<u>1,027,002</u>	<u>42,691</u>	<u>1,069,693</u>
Excess of revenues over (under) expenditures	<u>295,166</u>	<u>(35,117)</u>	<u>260,049</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	68,422	68,422
Compensation for loss	1,437	-	1,437
Proceeds from sale of capital assets	10,000	-	10,000
Long-term liabilities issued	68,422	-	68,422
Transfers out	(68,422)	-	(68,422)
Total other financing sources	<u>11,437</u>	<u>68,422</u>	<u>79,859</u>
Net change in fund balances	306,603	33,305	339,908
Changes in nonspendable	<u>8,244</u>	<u>-</u>	<u>8,244</u>
Fund balances - beginning	<u>1,062,687</u>	<u>23,200</u>	<u>1,085,887</u>
Fund balances - ending	<u>\$ 1,377,534</u>	<u>\$ 56,505</u>	<u>\$ 1,434,039</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, 2014

Net change in fund balances - total governmental funds \$ 339,908

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 capital outlay (\$304,903) exceeded depreciation (\$276,523) in the current period. 28,380

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. (7,145)

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. 8,244

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.

Issuance:
Bonds (68,422)
Repayments:
Bonds 45,442

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 changes of these balances.

Accrued interest \$ 3,513
Compensated absences (3,229) 284

In the statement of activities, the gain on the disposal of assets (\$795) is reported, whereas, in the governmental funds, the proceeds (\$11,437) from the disposal of capital assets is reflected, regardless of whether a gain or loss is realized. (10,642)

Change in net position of governmental activities \$ 336,049

The accompanying notes are an integral part of these financial statements

CITY OF PHILIP

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2014**

	Enterprise Funds			Total
	Major Funds		Nonmajor Fund	
	Water	Sewer	Garbage	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 560,176	\$ 431,276	\$ 46,388	\$ 1,037,840
Restricted cash and cash equivalents	37,000	-	-	37,000
Certificates of deposit	40,000	12,000	20,000	72,000
Receivables, (net of allowances for uncollectibles, if any):				
Accounts	29,816	15,041	9,672	54,529
Inventories - supplies	31,086	975	-	32,061
Total current assets	<u>698,078</u>	<u>459,292</u>	<u>76,060</u>	<u>1,233,430</u>
Noncurrent assets:				
Capital assets:				
Land	-	30,757	-	30,757
Buildings and improvements	2,515,070	2,426,699	4,380	4,946,149
Machinery and equipment	184,522	53,287	-	237,809
Less accumulated depreciation	<u>(877,031)</u>	<u>(1,109,497)</u>	<u>(4,380)</u>	<u>(1,990,908)</u>
Total noncurrent assets	<u>1,822,561</u>	<u>1,401,246</u>	<u>-</u>	<u>3,223,807</u>
Total assets	<u>2,520,639</u>	<u>1,860,538</u>	<u>76,060</u>	<u>4,457,237</u>
LIABILITIES				
Current liabilities:				
Accounts payable	-	191	-	191
Accrued interest payable	1,968	4,071	-	6,039
Revenue received in advance	1,852	-	-	1,852
Customer deposits	8,417	-	-	8,417
Bonds payable - current portion	10,442	12,023	-	22,465
Compensated absences - current portion	<u>7,247</u>	<u>3,043</u>	<u>-</u>	<u>10,290</u>
Total current liabilities	<u>29,926</u>	<u>19,328</u>	<u>-</u>	<u>49,254</u>
Noncurrent liabilities:				
Bonds payable	564,831	589,300	-	1,154,131
Compensated absences	<u>1,812</u>	<u>760</u>	<u>-</u>	<u>2,572</u>
Total noncurrent liabilities	<u>566,643</u>	<u>590,060</u>	<u>-</u>	<u>1,156,703</u>
Total liabilities	<u>596,569</u>	<u>609,388</u>	<u>-</u>	<u>1,205,957</u>
NET POSITION				
Net investment in capital assets	1,247,288	799,923	-	2,047,211
Restricted for:				
Debt service	37,000	-	-	37,000
Unrestricted	<u>639,782</u>	<u>451,227</u>	<u>76,060</u>	<u>1,167,069</u>
Total net position	<u>\$ 1,924,070</u>	<u>\$ 1,251,150</u>	<u>\$ 76,060</u>	<u>\$ 3,251,280</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, 2014

	Enterprise Funds			Total
	Major Funds		Nonmajor Fund	
	Water	Sewer	Garbage	
OPERATING REVENUES				
Charges for goods and services:				
Ordinary revenues	\$ -	\$ -	\$ 67,789	\$ 67,789
Revenues securing bond issues	239,551	107,524	-	347,075
Total operating revenues	<u>239,551</u>	<u>107,524</u>	<u>67,789</u>	<u>414,864</u>
OPERATING EXPENSES				
Personnel services	51,770	29,297	4,255	85,322
Cost and materials	100,435	13,219	59,165	172,819
Other current expenses	2,715	6,106	-	8,821
Depreciation	51,727	61,815	-	113,542
Total operating expenses	<u>206,647</u>	<u>110,437</u>	<u>63,420</u>	<u>380,504</u>
Operating income (loss)	<u>32,904</u>	<u>(2,913)</u>	<u>4,369</u>	<u>34,360</u>
NONOPERATING REVENUES (EXPENSES)				
Interest income	2,797	2,385	326	5,508
Rental income	-	115	-	115
Interest expense	(28,834)	(18,715)	-	(47,549)
Total nonoperating revenues (expenses)	<u>(26,037)</u>	<u>(16,215)</u>	<u>326</u>	<u>(41,926)</u>
Change in net position	6,867	(19,128)	4,695	(7,566)
Total net position - beginning	<u>1,917,203</u>	<u>1,270,278</u>	<u>71,365</u>	<u>3,258,846</u>
Total net position - ending	<u>\$ 1,924,070</u>	<u>\$ 1,251,150</u>	<u>\$ 76,060</u>	<u>\$ 3,251,280</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, 2014

	Enterprise Funds			Total
	Major Funds		Nonmajor Fund	
	Water	Sewer	Garbage	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 236,544	\$ 107,457	\$ 67,746	\$ 411,747
Internal activity - payments from other funds	2,200	301	-	2,501
Payments to suppliers	(100,954)	(46,457)	(59,166)	(206,577)
Payments to employees	(51,092)	(28,880)	(4,255)	(84,227)
Net cash provided by operating activities	<u>86,698</u>	<u>32,421</u>	<u>4,325</u>	<u>123,444</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Rental revenue	-	115	-	115
Purchase of capital assets	(20,878)	(86,124)	-	(107,002)
Issuance of long-term liabilities	-	45,269	-	45,269
Principal payments on bonds	(9,962)	(2,799)	-	(12,761)
Interest payments on bonds	(26,866)	(21,342)	-	(48,208)
Net cash (used in) capital and related financing activities	<u>(57,706)</u>	<u>(64,881)</u>	<u>-</u>	<u>(122,587)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment income	<u>2,797</u>	<u>2,385</u>	<u>326</u>	<u>5,508</u>
Net cash provided by investing activities	<u>2,797</u>	<u>2,385</u>	<u>326</u>	<u>5,508</u>
Net increase (decrease) in cash and cash equivalents	31,789	(30,075)	4,651	6,365
Balances - beginning of the year	<u>565,387</u>	<u>461,351</u>	<u>41,737</u>	<u>1,068,475</u>
Balances - end of the year	<u>\$ 597,176</u>	<u>\$ 431,276</u>	<u>\$ 46,388</u>	<u>\$ 1,074,840</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, 2014

	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)	\$ 32,904	\$ (2,913)	\$ 4,369	\$ 34,360
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	51,729	61,815	-	113,544
Change in operating assets and liabilities:				
(Increase) decrease in:				
Accounts receivable	(1,805)	234	(44)	-1,615
Inventories	2,195	(705)	-	1,490
Increase (decrease) in:				
Accounts payable	-	(11)	-	-11
Construction contract retainage payable	-	(26,416)	-	-26,416
Revenue received in advance	420	-	-	420
Customer deposits	577	-	-	577
Accrued leave liabilities	678	417	-	1,095
Net cash provided by operating activities	<u>\$ 86,698</u>	<u>\$ 32,421</u>	<u>\$ 4,325</u>	<u>\$ 123,444</u>

The accompanying notes are an integral part of these financial statements

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. 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.

b. Basis of Presentation:

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity. 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.

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

b. Basis of Presentation, 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, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

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

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.

Capital Projects Funds – capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds for individuals, private organizations, or other governments).

CITY OF PHILIP

**NOTES TO FINANCIAL STATEMENTS - continued
DECEMBER 31, 2014**

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

b. Basis of Presentation, continued

Proprietary Funds:

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

Water fund – financed primarily by user charges, this fund accounts for the construction and operation of the municipal waterworks system and related facilities. (SDCL 9-47-1) This is a major fund.

Sewer Fund – financed primarily by user charges, this fund accounts for the construction and operation of the municipal sanitary sewer system and related facilities. (SDCL 9-48-2) This is a major fund.

The remaining enterprise fund (Garbage) is not considered a major fund.

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS - continued
DECEMBER 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

c. Measurement Focus and Basis of Accounting

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

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.

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).

CITY OF PHILIP

**NOTES TO FINANCIAL STATEMENTS - continued
DECEMBER 31, 2014**

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

c. Measurement Focus and Basis of Accounting, continued

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 of Philip, South Dakota, the length of that cycle is 45 days. The revenues which are accrued at December 31, 2014 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. Reported revenue received in advance or 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 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.

d. 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 - continued
DECEMBER 31, 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

e. Inventories

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

Inventory acquired for resale in the proprietary funds is recorded as an asset when acquired. The consumption of inventories held for resale is charged to expense as it is consumed. Inventories held for resale 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.

f. Capital Assets:

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

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

f. Capital Assets, continued:

Government-wide Financial Statements

Purchased capital assets are recorded at cost, or estimated historical cost, when 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.

The total December 31, 2014 balance of governmental activities capital assets includes approximately 25 percent for which the costs were determined by estimates of the historical costs. The total December 31, 2014 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."

For governmental activities capital assets, construction-period interest is not capitalized, in accordance with accounting principles generally accepted in the United States, while for capital assets used in business-type activities/proprietary fund's operations, construction period interest is capitalized in accordance with accounting principles generally accepted in the United States.

Depreciation of all exhaustible capital assets is charged as an allocated expense against operations in the government-wide financial statements, 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.

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS – continued
DECEMBER 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

f. Capital Assets, continued:

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

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

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.

g. 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.

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS – continued DECEMBER 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

h. 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.

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.

i. 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.

j. 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.

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS – continued
DECEMBER 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

k. Equity Classifications

Government-wide 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.
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.

l. 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.

m. 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.

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS – continued
DECEMBER 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

m. Fund Balance Classification Policies and Procedures, continued:

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 or committed. Fund Balance may be assigned by the City Council.
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.

n. 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.

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS – continued DECEMBER 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

o. 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. All governmental and proprietary funds essentially have access to the entire amount of their cash resources on demand. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits – The City’s cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2, and may be in the form of demand or time deposits. Qualified 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.

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2014

2. DEPOSITS AND INVESTMENTS, continued

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, 2014, the City's deposits were fully insured or collateralized and were not exposed to custodial credit risk.

Investments – As of December 31, 2014, the City has 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.

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 except for \$23,304 in deferred special assessments. 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, 2014, the allowance for doubtful accounts in the proprietary funds was \$-0-.

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS - continued
DECEMBER 31, 2014

4. INTERFUND TRANSFERS

A summary of interfund transfers as of December 31, 2014, is as follows:

	<u>Transfers From</u>	<u>Transfers To</u>
<i>Governmental Activities:</i>		
General Fund		
Capital Project Fund	\$ 68,422	\$ -
	<u>68,422</u>	<u>-</u>
Capital Project Fund:		
General Fund	<u>-</u>	68,422
	<u>-</u>	<u>68,422</u>
<i>Total Governmental Activities</i>	<u>\$ 68,422</u>	<u>\$ -</u>

The City typically budgets transfers to the Capital Project fund from the General Fund to contribute their share to capital projects being completed.

CITY OF PHILIP

**NOTES TO FINANCIAL STATEMENTS - continued
DECEMBER 31, 2014**

5. CHANGES IN CAPITAL ASSETS

A summary of changes in governmental activities' capital assets for the year ended December 31, 2014 is as follows:

	Beginning Balances	Increases	Decreases	Transfers	Ending Balances
<i>Governmental Activities:</i>					
<i>Capital assets not being depreciated</i>					
Land	\$ 97,784	\$ -	\$ (14)	\$ -	\$ 97,770
Construction in progress	<u>1,158,486</u>	<u>244,787</u>	<u>-</u>	<u>(1,082,356)</u>	<u>320,917</u>
Total capital assets not being depreciated	<u>1,256,270</u>	<u>244,787</u>	<u>(14)</u>	<u>(1,082,356)</u>	<u>418,687</u>
<i>Capital assets being depreciated</i>					
Infrastructure	3,907,573	12,035	(154,047)	1,028,263	4,793,824
Buildings and improvements	2,433,648	18,005	-	54,093	2,505,746
Equipment	<u>603,474</u>	<u>30,077</u>	<u>(20,928)</u>	<u>-</u>	<u>612,623</u>
Total capital assets being depreciated	<u>6,944,695</u>	<u>60,117</u>	<u>(174,975)</u>	<u>1,082,356</u>	<u>7,912,193</u>
Less accumulated depreciation for:					
Infrastructure	1,949,702	138,182	(143,419)	-	1,944,465
Buildings and improvements	774,468	100,061	-	-	874,529
Equipment	<u>374,753</u>	<u>38,281</u>	<u>(20,928)</u>	<u>-</u>	<u>392,106</u>
Total accumulated depreciation	<u>3,098,923</u>	<u>276,524</u>	<u>(164,347)</u>	<u>-</u>	<u>3,211,100</u>
Total capital assets being depreciated, net	<u>3,845,772</u>	<u>(216,407)</u>	<u>(10,628)</u>	<u>1,082,356</u>	<u>4,701,093</u>
Governmental activities capital assets, net	<u>\$ 5,102,042</u>	<u>\$ 28,380</u>	<u>\$ (10,642)</u>	<u>\$ -</u>	<u>\$ 5,119,780</u>

Depreciation expense was charged to functions as follows:

Governmental Activities:

General Government	\$ 4,287
Public Safety	6,590
Public Works	243,762
Culture and Recreation	<u>21,885</u>

Total Depreciation Expense - Governmental Activities \$ 276,524

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS - continued
DECEMBER 31, 2014

5. CHANGES IN CAPITAL ASSETS, continued

A summary of changes in business-type activities' capital assets for the year ended December 31, 2014 is as follows:

	Beginning Balances	Increases	Decreases	Transfers	Ending Balances
<i>Business-Type Activities:</i>					
<i>Capital assets not being depreciated</i>					
Land	\$ 30,757	\$ -	\$ -	\$ -	\$ 30,757
Construction in progress	631,769	86,124	-	(717,893)	-
Total capital assets not being depreciated	<u>662,526</u>	<u>86,124</u>	<u>-</u>	<u>(717,893)</u>	<u>30,757</u>
Buildings and improvements	4,228,256	-	-	717,893	4,946,149
Equipment	216,932	20,877	-	-	237,809
Total capital assets being depreciated	<u>4,445,188</u>	<u>20,877</u>	<u>-</u>	<u>717,893</u>	<u>5,183,958</u>
Less accumulated depreciation for:					
Buildings and improvements	1,732,467	103,334	-	-	1,835,801
Equipment	144,899	10,208	-	-	155,107
Total accumulated depreciation	<u>1,877,366</u>	<u>113,542</u>	<u>-</u>	<u>-</u>	<u>1,990,908</u>
Total capital assets being depreciated, net	<u>2,567,822</u>	<u>(92,665)</u>	<u>-</u>	<u>717,893</u>	<u>3,193,050</u>
Business-type activities capital assets, net	<u>\$ 3,230,348</u>	<u>\$ (6,541)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,223,807</u>

Depreciation expense was charged to functions as follows:

<i>Business-Type Activities:</i>	
Water Fund	\$ 51,727
Sewer Fund	<u>61,815</u>
 Total Depreciation Expense - Business-Type Activities	 <u>\$113,542</u>

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS - continued
DECEMBER 31, 2014

5. CHANGES IN CAPITAL ASSETS, continued

Construction in progress at December 31, 2014 is composed of the following:

Project Name	Expended 12/31/2014
Governmental Activities:	
Airport Runway, Taxiway and Apron	\$ 232,895
Pine St. Phase III Project	71,029
Shared Use Path/Trails Project	11,951
SD Hwy 73 and Lighting Project	5,042
Total	\$ 320,917

The Airport Runway, Taxiway and Apron will require approximately \$23,177 in additional expenditures to complete the project in 2015. It is funded with 90% federal funds, 5% state funds, and 5% local funds. The City anticipates a 2015 completion date of the Environmental Assessment portion of the LA/EA project. The possible land exchange to acquire ownership of the Airport's runway protection zones are still in process.

The Pine Street Phase III Project is a Street Improvement Project. An overlay of the project area was completed in 2013, but a complete rebuild may be considered in 2018. Total cost is estimated at \$2,026,700.

The Shared Use Path/Trail Project was awarded Transportation Alternative Program (TAP) funding of 80.2% or \$51,797 with the local share being 19.8% or \$12,788—total of \$64,585. At the end of 2014, the costs have increased to \$76,980 which includes the additional ADA connection that the City is required to install at 100%. In turn, the local share has increased to \$28,783. This will be funded with a \$20,000 commitment from the local chamber of commerce as well as tax dollars. The project is anticipated to go for bids in early 2015 depending upon the State's pre-bid estimate and available funding.

The SD Hwy 73 Sidewalk & Lighting project will require approximately \$75,000 in additional expenditures. It will be funded through 2nd penny sales tax revenues. This is a SD DOT project that is anticipated for completion in 2015.

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS - continued
DECEMBER 31, 2014

6. LONG-TERM LIABILITIES

A summary of the changes in long-term debt as of December 31, 2014 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<i>Governmental Activities:</i>					
Bonds Payable:					
Revenue Bonds	\$ 1,097,144	\$ 68,422	\$ (45,443)	\$ 1,120,123	\$ 60,473
Compensated Absences	25,079	23,291	(20,063)	28,307	22,646
Total Long-Term Liabilities - Governmental Activities	<u>1,122,223</u>	<u>91,713</u>	<u>(65,506)</u>	<u>1,148,430</u>	<u>83,119</u>
<i>Business-Type Activities:</i>					
Bonds Payable:					
Revenue Bonds	1,144,088	45,269	(12,761)	1,176,596	22,465
Compensated Absences	11,767	10,509	(9,414)	12,862	10,290
Total Long-Term Liabilities - Business-Type Activities	<u>1,155,855</u>	<u>55,778</u>	<u>(22,175)</u>	<u>1,189,458</u>	<u>32,755</u>
Total Governmental	<u>\$ 2,278,078</u>	<u>\$ 147,491</u>	<u>\$ (87,681)</u>	<u>\$ 2,337,888</u>	<u>\$ 115,874</u>

Long-term liabilities at December 31, 2014 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. \$ 861,534

\$316,423 Clean Water SRF Loan dated 12-2-2005; final maturity date January 1, 2022; 3.25% interest rate; \$2,223 monthly payment is paid from the General Fund. 166,843

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS - continued
DECEMBER 31, 2014

6.	LONG-TERM LIABILITIES, continued	
	\$321,127 Revenue Improvement Bond, Series 1997; final maturity date December 1, 2018; 5.25% interest rate; \$2,164 monthly payment is paid from the General Fund.	91,746
	Compensated Absences: Vacation and sick leave payable to City employees as of December 31, 2014; payments made from department that employees' normal salaries are paid.	<u>28,307</u>
	Total Governmental Activities	<u>\$ 1,148,430</u>
	<i>Business-Type Activities:</i>	
	Revenue Bonds: \$657,000 Water Utility Revenue Bond, Series 2002; final maturity date December 2, 2042; 4.625% interest rate; \$3,069 monthly payment is paid from the Water Fund.	\$ 575,273
	\$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.	601,323
	Compensated Absences: Vacation and sick leave payable to City employees as of December 31, 2014; payments made from fund that employees' normal salaries are paid.	<u>12,862</u>
	Total Business-Type Activities	<u>\$ 1,189,458</u>

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS - continued
DECEMBER 31, 2014

6. LONG-TERM LIABILITIES, continued

The annual requirements to amortize debt outstanding as of December 31, 2014, except for compensated absences, are as follows:

Year Ending December 31,	Governmental Activities Revenue Bonds		
	Principal	Interest	Total
2015	\$ 60,473	\$ 37,040	\$ 97,513
2016	63,205	34,747	97,952
2017	65,753	32,199	97,952
2018	66,275	29,503	95,778
2019	44,496	27,489	71,985
2020 - 2024	161,508	118,375	279,883
2025 - 2029	129,221	97,300	226,521
2030 - 2034	151,921	74,599	226,520
2035 - 2039	178,610	47,910	226,520
2040 - 2044	198,661	16,533	215,194
Total	\$ 1,120,123	\$ 515,695	\$ 1,635,818

Year Ending December 31,	Business-Type Activities Revenue Bonds		
	Principal	Interest	Total
2015	\$ 22,465	\$ 45,689	\$ 68,154
2016	23,483	44,966	68,449
2017	24,485	43,964	68,449
2018	25,455	42,994	68,449
2019	26,465	41,985	68,450
2020 - 2024	148,831	342,245	491,076
2025 - 2029	181,118	242,245	423,363
2030 - 2034	220,578	342,245	562,823
2035 - 2039	268,956	342,245	611,201
2040 - 2044	234,760	252,820	487,580
Total	\$ 1,176,596	\$ 1,741,398	\$ 2,917,994

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS - continued
DECEMBER 31, 2014

7. RESTRICTED NET POSITION

The following table shows the net position restricted for other purposes as shown on the Statement of Net Position for the year ended December 31, 2014:

<u>Fund</u>	<u>Restricted By</u>	<u>Amount</u>
Capital Projects Fund	Law	\$ 56,505
Sewer Fund	Bond Covenant	<u>\$ 37,000</u>
Total Restricted Net Position		<u>\$ 93,505</u>

8. RETIREMENT PLAN

All employees, except for part-time employees who work less than twenty hours per week and temporary employees, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivors benefits. The right to receive retirement benefits vests after three years of credited service.

Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, South Dakota 57501-1098 or by calling (605) 773-3731.

General employees are required by state statute to contribute 6.0% of their salary to the plan, while public safety and judicial employees contribute at 8.0% and 9.0% respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only.

The City's share of contributions to the SDRS for the fiscal years ended December 31, 2014, 2013 and 2012 was \$18,040, \$17,467, and \$16,951 respectively, equal to the required contributions each year.

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2014

9. 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, 2014, 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.

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, 2014**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
General property taxes	\$ 386,589	\$ 386,589	\$ 383,746	\$ (2,843)
General sales and use taxes	400,000	400,000	503,883	103,883
Amusement taxes	300	300	108	(192)
Penalties and interest on delinquent taxes	500	500	604	104
Licenses and permits	7,775	7,775	8,195	420
Intergovernmental revenue:				
Federal grants	337,847	337,847	198,083	(139,764)
State grants	15,081	15,081	15,117	36
State shared revenues	49,950	49,950	56,681	6,731
County shared revenues	5,300	5,300	5,331	31
Charges for goods and services:				
Sanitation	8,700	8,700	21,603	12,903
Health	500	500	817	317
Culture and recreation	17,800	17,800	16,902	(898)
Fines and forfeits:				
Court fines and costs	500	500	408	(92)
Miscellaneous revenue:				
Interest earned	5,000	5,000	4,559	(441)
Rentals	750	750	626	(124)
Special assessments	63,692	63,692	57,552	(6,140)
Contributions and donations from private sources	10,375	10,375	6,675	(3,700)
Other	13,485	13,485	12,906	(579)
Airport	24,325	24,325	28,372	4,047
Total revenues	<u>1,348,469</u>	<u>1,348,469</u>	<u>1,322,168</u>	<u>(26,301)</u>
EXPENDITURES				
General government:				
Legislative	40,000	41,500	36,263	5,237
Contingency	57,500	57,500	-	14,544
(Amount transferred)		(42,956)		
Executive	18,175	18,175	16,599	1,576
Elections	1,350	1,350	-	1,350
Financial administration	131,100	132,100	122,993	9,107
Other	53,175	55,450	48,618	6,832
Public safety:				
Police	172,300	175,000	162,614	12,386
Fire	12,440	15,555	10,855	4,700
Other protection	1,450	1,450	584	866
Public works:				
Highways and streets	397,215	896,875	268,196	628,679
Sanitation	6,900	6,900	3,197	3,703
Airport	98,600	368,844	284,920	83,924
Health and welfare:				
Health	450	450	7	443
Humane society	150	150	-	150
Ambulance	2,500	2,500	2,691	(191)

See Independent Auditor's Report

CITY OF PHILIP

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 GENERAL FUND - PAGE 2 OF 2
 YEAR ENDED DECEMBER 31, 2014

	Budgeted Amounts		Actual Amounts	Variance With
	Original	Final	(Budgetary Basis)	Final Budget Positive (Negative)
EXPENDITURES (continued)				
Culture and recreation:				
Recreation	62,745	62,420	56,349	6,071
Parks	4,750	5,250	3,030	2,220
Libraries	1,200	1,200	1,200	-
Conservation and development:				
Economic opportunity	5,325	8,825	8,886	(61)
Total expenditures	<u>1,067,325</u>	<u>1,808,538</u>	<u>1,027,002</u>	<u>781,536</u>
Excess (deficiency) of revenues over expenditures	<u>281,144</u>	<u>(460,069)</u>	<u>295,166</u>	<u>755,235</u>
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	1,000	1,000	10,000	9,000
Compensation for loss	1,000	1,000	1,437	437
Long-term liabilities issued	71,625	71,625	68,422	(3,203)
Transfers out	-	-	(68,422)	(68,422)
Total other financing sources (uses)	<u>73,625</u>	<u>73,625</u>	<u>11,437</u>	<u>(62,188)</u>
Net change in fund balances	354,769	(386,444)	306,603	693,047
Changes in nonspendable	-	-	8,244	8,244
Fund balances - beginning	<u>1,062,687</u>	<u>1,062,687</u>	<u>1,062,687</u>	<u>-</u>
Fund balances - ending	<u>\$ 1,417,456</u>	<u>\$ 676,243</u>	<u>\$ 1,377,534</u>	<u>\$ 701,291</u>

See Independent Auditor's Report

CITY OF PHILIP

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION DECEMBER 31, 2014

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, 2014.

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 - continued DECEMBER 31, 2014

2. GAAP/BUDGETARY ACCOUNTING BASIS DIFFERENCES

The financial statements prepared in conformity with US GAAP present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay 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.

SUPPLEMENTARY INFORMATION

*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, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City of Philip, South Dakota's basic financial statements and have issued our report thereon dated February 29, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Philip, South Dakota's internal control over financial reporting (internal control) to determine the 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 of Philip, South Dakota's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Philip, South Dakota'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of audit findings and responses that we consider to be a significant deficiency: Finding 2014-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Philip, South Dakota'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*.

City of Philip, South Dakota's Response to Findings

City of Philip, South Dakota's response to the findings identified in our audit is described in the accompanying schedule of audit findings and responses. City of Philip, South Dakota's response was not subject 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 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 communication 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.

Wohlschlag Ritzman & Co., LLC

Yankton, South Dakota
February 29, 2016

CITYOF PHILIP

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2014**

PRIOR AUDIT FINDING

Finding 2013-001: Segregation of Duties

A significant deficiency was noted for a lack of segregation of duties regarding accounting functions.

This lack of segregation of duties continues to exist and is restated as Current Audit Finding 2014-001.

CITY OF PHILIP

SCHEDULE OF AUDIT FINDINGS AND RESPONSES - continued DECEMBER 31, 2014

Finding 2014-001: Segregation of Duties Significant Deficiency in Internal Control Over Financial Reporting

Our study and evaluation of internal control structure policies and procedures disclosed that there is a weakness in controls in effect due to a lack of segregation of duties.

Criteria

Proper segregation of duties results in increased reliability of reported financial data and decreased potential for the loss of public assets. A system of internal controls contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Condition

Three members of the office staff process all cash receipts and disbursement transactions, including receiving money, issuing receipts, recording and posting receipts in the accounting records, preparing bank deposits, reconciling bank statements, and preparing financial statements.

Cause

The City has an insufficient number of staff to adequately separate duties.

Effect

This condition increases the risk of fraud or errors that might occur in the financial reporting process and not be detected.

Recommendation

Management and the City Council should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. The most effective controls lie in the Management's knowledge of the matters relating to the City's operations, establishing a procedure of rotation of duties and strict enforcement of a vacation policy requiring all personnel to be absent from the City for specified times.

CITY OF PHILIP

**SCHEDULE OF AUDIT FINDINGS AND RESPONSES - continued
DECEMBER 31, 2014**

**Finding 2014-001: Segregation of Duties
Significant Deficiency in Internal Control Over Financial Reporting, continued**

Management's Response

The Mayor of the City of Philip, South Dakota, is the contact person responsible for the corrective action plan for this comment. This comment is a result of the size of the City of Philip which precludes staffing at a level sufficient to provide an ideal environment for internal controls more difficult. The City of Philip's management continues to provide compensating controls wherever and whenever possible and practical. However, this lack of segregation of duties regarding accounting functions continues to exist.