

CITY OF PHILIP, SOUTH DAKOTA

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

DECEMBER 31, 2022

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, 2022, 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, 2022, 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.

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.

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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 and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government 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 proportionate share of net pension (asset)/liability, and the schedule of the 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 October 30, 2023, 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.

Wohlenberg Ritzman + Co., LLC

Yankton, South Dakota
October 30, 2023

CITY OF PHILIP

STATEMENT OF NET POSITION
DECEMBER 31, 2022

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 4,288,929	\$ 1,710,644	\$ 5,999,573
Receivables, net	122,222	64,651	186,873
Inventories	60,113	29,966	90,079
Net pension asset	1,091	272	1,363
Capital assets:			
Capital assets not being depreciated	608,223	207,805	816,028
Capital assets being depreciated, net	<u>6,863,184</u>	<u>2,827,882</u>	<u>9,691,066</u>
Total capital assets	<u>7,471,407</u>	<u>3,035,687</u>	<u>10,507,094</u>
 Total assets	 <u>11,943,762</u>	 <u>4,841,220</u>	 <u>16,784,982</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension related deferred outflows	<u>100,633</u>	<u>25,158</u>	<u>125,791</u>
Total deferred outflows of resources	<u>100,633</u>	<u>25,158</u>	<u>125,791</u>
LIABILITIES			
Accounts payable	16,277	248	16,525
Accrued interest payable	6,060	4,814	10,874
Revenue received in advance	-	3,998	3,998
Customer deposits	-	8,323	8,323
Noncurrent liabilities:			
Portion due or payable within one year:			
Bonds payable	32,688	27,564	60,252
Compensated absences	20,251	5,941	26,192
Portion due or payable after one year:			
Bonds payable	1,062,186	921,908	1,984,094
Compensated absences	<u>5,063</u>	<u>1,486</u>	<u>6,549</u>
 Total liabilities	 <u>1,142,525</u>	 <u>974,282</u>	 <u>2,116,807</u>
DEFERRED INFLOWS OF RESOURCES			
Pension related deferred inflows	<u>63,546</u>	<u>15,886</u>	<u>79,432</u>
Total deferred inflows of resources	<u>63,546</u>	<u>15,886</u>	<u>79,432</u>
NET POSITION			
Net investment in capital assets	6,376,533	2,086,215	8,462,748
Restricted for:			
SDRS pension	38,178	9,544	47,722
Unrestricted	<u>4,423,613</u>	<u>1,780,451</u>	<u>6,204,064</u>
 Total net position	 <u>\$ 10,838,324</u>	 <u>\$ 3,876,210</u>	 <u>\$ 14,714,534</u>

The accompanying notes are an integral part of these financial statements

CITY OF PHILIP

STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2022

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	\$ 413,048	\$ 8,125	\$ -	\$ -	\$ (404,923)		\$ (404,923)
Public safety	188,623	169	-	-	(188,454)		(188,454)
Public works	499,961	4,744	101,216	47,556	(346,445)		(346,445)
Health and welfare	6,948	-	825	-	(6,123)		(6,123)
Culture and recreation	150,774	-	19,279	-	(131,495)		(131,495)
Conservation and development	7,992	-	-	-	(7,992)		(7,992)
Interest and fiscal charges	33,075	-	-	-	(33,075)		(33,075)
Total governmental activities	<u>1,300,421</u>	<u>13,038</u>	<u>121,320</u>	<u>47,556</u>	<u>(1,118,507)</u>		<u>(1,118,507)</u>
Business-type activities:							
Water	198,385	268,125	-	-		\$ 69,740	69,740
Sewer	155,341	160,100	-	-		4,759	4,759
Garbage	64,869	73,222	-	-		8,353	8,353
Total business-type activities	<u>418,595</u>	<u>501,447</u>	<u>-</u>	<u>-</u>		<u>82,852</u>	<u>82,852</u>
Total government	<u>\$ 1,719,016</u>	<u>\$ 514,485</u>	<u>\$ 121,320</u>	<u>\$ 47,556</u>	<u>(1,118,507)</u>	<u>82,852</u>	<u>(1,035,655)</u>
General revenues:							
Taxes:							
Property taxes					560,217	-	560,217
Sales taxes					641,715	-	641,715
State shared revenues					28,746	-	28,746
Grants and contributions					238,000	75,285	313,285
Unrestricted investment earnings					42,979	16,739	59,718
Miscellaneous					77,460	-	77,460
Compensation for loss or damage to capital assets					182,554	-	182,554
Total general revenues and transfers					<u>1,771,671</u>	<u>92,024</u>	<u>1,863,695</u>
Change in net position					653,164	174,876	828,040
Net position - beginning					<u>10,185,160</u>	<u>3,701,334</u>	<u>13,886,494</u>
Net position - ending					<u>\$ 10,838,324</u>	<u>\$ 3,876,210</u>	<u>\$ 14,714,534</u>

The accompanying notes are an
integral part of these financial statements

CITY OF PHILIP
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2022

	Major Fund General Fund	Total Governmental Funds
ASSETS		
Cash and cash equivalents	\$ 4,288,929	\$ 4,288,929
Receivables, (net of allowances for uncollectibles, if any):		
Accounts	6,101	6,101
Property taxes	3,614	3,614
Special assessments	22,989	22,989
Due from other governments	89,518	89,518
Inventories:		
Supplies	60,113	60,113
 Total assets	\$ 4,471,264	\$ 4,471,264
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 16,277	\$ 16,277
Total liabilities	16,277	16,277
Deferred inflows of resources:		
Unavailable revenue - property taxes	3,614	3,614
Unavailable revenue - special assessments	22,989	22,989
Total deferred inflows of resources	26,603	26,603
Fund balances:		
Nonspendable:		
Inventory	60,113	60,113
Committed:		
Rubble site expansion	117,843	117,843
Capital outlay	1,461,983	1,461,983
Assigned:		
Next year's budget	42,900	42,900
Unassigned:		
Total fund balances	2,745,545	2,745,545
Total fund balances	4,428,384	4,428,384
 Total liabilities, deferred inflows of resources, and fund balances	\$ 4,471,264	\$ 4,471,264

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, 2022

Total fund balances for governmental funds		\$ 4,428,384
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	\$ 331,270	
Construction in progress	276,953	
Building and improvements, net of \$1,775,571 accumulated depreciation	2,332,255	
Equipment, net of \$661,644 accumulated depreciation	254,427	
Infrastructure, net of \$3,387,075 accumulated depreciation	<u>4,276,502</u>	
Total capital assets		7,471,407
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.		
		26,603
Net pension liability (asset) reported in the governmental activities is not an available financial resource and therefore is not reported in the funds.		
		1,091
Pension related deferred outflows are components of the net pension (asset)/liability and therefore are not reported in the funds.		
		100,633
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, 2022 are:		
Bonds payable	(1,094,874)	
Accrued interest	(6,060)	
Compensated absences	<u>(25,314)</u>	
Total long-term liabilities		(1,126,248)
Pension related deferred inflows are components of the net pension (asset)/liability and therefore are not reported in the funds.		
		<u>(63,546)</u>
Total net position of governmental activities		<u>\$ 10,838,324</u>

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, 2022

	Major Fund General Fund	Total Governmental Funds
REVENUES		
Taxes	\$ 1,201,407	\$ 1,201,407
Licenses and permits	8,125	8,125
Intergovernmental revenue	128,053	128,053
Charges for goods and services	67,655	67,655
Fines and forfeits	169	169
Miscellaneous revenue	369,180	369,180
Total revenues	1,774,589	1,774,589
EXPENDITURES		
Current:		
General government	414,439	414,439
Public safety	177,037	177,037
Public works	153,364	153,364
Health and welfare	6,948	6,948
Culture and recreation	126,989	126,989
Conservation and development	7,992	7,992
Debt service:		
Principal	31,719	31,719
Interest and other fiscal charges	33,257	33,257
Capital outlay	461,096	461,096
Total expenditures	1,412,841	1,412,841
OTHER FINANCING SOURCES (USES):		
Compensation for loss or damage to capital assets	182,554	182,554
Net change in fund balances	544,302	544,302
Changes in nonspendable	9,445	9,445
Fund balances - beginning	3,874,637	3,874,637
Fund balances - ending	\$ 4,428,384	\$ 4,428,384

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, 2022

Net change in fund balances - total governmental funds \$ 544,302

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 (\$461,096) exceeded depreciation expense (\$390,621) in the current period. 70,475

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. (3,558)

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. 9,445

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 31,719

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 \$ 182
Compensated absences (4,335) (4,153)

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. 4,934

Change in net position of governmental activities \$ 653,164

The accompanying notes are an
integral part of these financial statements

CITY OF PHILIP

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 DECEMBER 31, 2022

	Enterprise Funds			
	Major Funds		Nonmajor Fund	Total
	Water	Sewer	Garbage	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 832,324	\$ 753,336	\$ 124,984	\$ 1,710,644
Receivables, (net of allowances for uncollectibles, if any):				
Accounts	28,129	21,793	9,390	59,312
Due from other governments	-	5,339	-	5,339
Inventories - supplies	28,332	1,634	-	29,966
Total current assets	<u>888,785</u>	<u>782,102</u>	<u>134,374</u>	<u>1,805,261</u>
Noncurrent assets:				
Net pension asset	177	95	-	272
Capital assets:				
Land	-	30,757	-	30,757
Construction in progress	147,204	29,844	-	177,048
Buildings and improvements	2,526,114	2,947,394	4,380	5,477,888
Machinery and equipment	195,298	107,060	-	302,358
Less accumulated depreciation	<u>(1,293,662)</u>	<u>(1,654,322)</u>	<u>(4,380)</u>	<u>(2,952,364)</u>
Total noncurrent assets	<u>1,575,131</u>	<u>1,460,828</u>	<u>-</u>	<u>3,035,959</u>
Total assets	<u>2,463,916</u>	<u>2,242,930</u>	<u>134,374</u>	<u>4,841,220</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension related deferred outflows	<u>16,353</u>	<u>8,805</u>	<u>-</u>	<u>25,158</u>
LIABILITIES				
Current liabilities:				
Accounts payable	-	248	-	248
Accrued interest payable	-	4,814	-	4,814
Revenue received in advance	3,998	-	-	3,998
Customer deposits	8,323	-	-	8,323
Bonds payable - current portion	-	27,564	-	27,564
Compensated absences - current portion	<u>3,047</u>	<u>2,894</u>	<u>-</u>	<u>5,941</u>
Total current liabilities	<u>15,368</u>	<u>35,520</u>	<u>-</u>	<u>50,888</u>
Noncurrent liabilities:				
Bonds payable	-	921,908	-	921,908
Compensated absences	<u>571</u>	<u>915</u>	<u>-</u>	<u>1,486</u>
Total noncurrent liabilities	<u>571</u>	<u>922,823</u>	<u>-</u>	<u>923,394</u>
Total liabilities	<u>15,939</u>	<u>958,343</u>	<u>-</u>	<u>974,282</u>
DEFERRED INFLOWS OF RESOURCES				
Pension related deferred inflows	<u>10,326</u>	<u>5,560</u>	<u>-</u>	<u>15,886</u>
NET POSITION				
Net investment in capital assets	1,574,954	511,261	-	2,086,215
Restricted for:				
SDRS pension	6,204	3,340	-	9,544
Unrestricted	<u>872,846</u>	<u>773,231</u>	<u>134,374</u>	<u>1,780,451</u>
Total net position	<u>\$ 2,454,004</u>	<u>\$ 1,287,832</u>	<u>\$ 134,374</u>	<u>\$ 3,876,210</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, 2022

	Enterprise Funds			Total
	Major Funds		Nonmajor Fund	
	Water	Sewer	Garbage	
OPERATING REVENUES				
Charges for goods and services:				
Ordinary revenues	\$ 268,125	\$ 105,412	\$ 73,222	\$ 446,759
Revenues securing bond issues	-	54,688	-	54,688
Total operating revenues	<u>268,125</u>	<u>160,100</u>	<u>73,222</u>	<u>501,447</u>
OPERATING EXPENSES				
Personnel services	51,147	34,706	-	85,853
Cost and materials	91,117	11,189	64,869	167,175
Other current expenses	3,823	6,676	-	10,499
Depreciation	<u>52,298</u>	<u>74,994</u>	<u>-</u>	<u>127,292</u>
Total operating expenses	<u>198,385</u>	<u>127,565</u>	<u>64,869</u>	<u>390,819</u>
Operating income (loss)	<u>69,740</u>	<u>32,535</u>	<u>8,353</u>	<u>110,628</u>
NONOPERATING REVENUES (EXPENSES)				
Operating grants	-	75,285	-	75,285
Interest income	8,679	6,604	1,456	16,739
Interest expense	<u>-</u>	<u>(27,776)</u>	<u>-</u>	<u>(27,776)</u>
Total nonoperating revenues (expenses)	<u>8,679</u>	<u>54,113</u>	<u>1,456</u>	<u>64,248</u>
Change in net position	78,419	86,648	9,809	174,876
Total net position - beginning	<u>2,375,585</u>	<u>1,201,184</u>	<u>124,565</u>	<u>3,701,334</u>
Total net position - ending	<u>\$ 2,454,004</u>	<u>\$ 1,287,832</u>	<u>\$ 134,374</u>	<u>\$ 3,876,210</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, 2022

	Enterprise Funds			Total
	Major Funds		Nonmajor Fund	
	Water	Sewer	Garbage	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 267,015	\$ 155,143	\$ 72,563	\$ 494,721
Internal activity - payments from other funds	3,017	445	-	3,462
Payments to suppliers	(94,802)	(19,249)	(64,917)	(178,968)
Payments to employees	(51,462)	(34,460)	-	(85,922)
Net cash provided by (used in) operating activities	<u>123,768</u>	<u>101,879</u>	<u>7,646</u>	<u>233,293</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating grants	-	179,347	-	179,347
Net cash provided by (used in) noncapital financing activities	<u>-</u>	<u>179,347</u>	<u>-</u>	<u>179,347</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of capital assets	(55,263)	(52,129)	-	(107,392)
Principal payments on bonds	-	(26,771)	-	(26,771)
Interest payments on bonds	-	(27,917)	-	(27,917)
Net cash provided by (used in) capital and related financing activities	<u>(55,263)</u>	<u>(106,817)</u>	<u>-</u>	<u>(162,080)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment income	<u>8,679</u>	<u>6,604</u>	<u>1,456</u>	<u>16,739</u>
Net cash provided by (used in) investing activities	<u>8,679</u>	<u>6,604</u>	<u>1,456</u>	<u>16,739</u>
Net change in cash and cash equivalents	77,184	181,013	9,102	267,299
Balances - beginning of the year	<u>755,140</u>	<u>572,323</u>	<u>115,882</u>	<u>1,443,345</u>
Balances - end of the year	<u>\$ 832,324</u>	<u>\$ 753,336</u>	<u>\$ 124,984</u>	<u>\$ 1,710,644</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, 2022

	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)	\$ 69,740	\$ 32,535	\$ 8,353	\$ 110,628
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	52,298	74,994	-	127,292
Change in operating assets and liabilities:				
(Increase) decrease in:				
Accounts receivable	833	(4,512)	(659)	(4,338)
Inventories	186	(103)	-	83
Pension related accounts	(801)	(431)	-	(1,232)
Increase (decrease) in:				
Accounts payable	(48)	(1,281)	(48)	(1,377)
Revenue received in advance	1,707	-	-	1,707
Customer deposits	(633)	-	-	(633)
Accrued leave liabilities	486	677	-	1,163
Net cash provided by operating activities	<u>\$ 123,768</u>	<u>\$ 101,879</u>	<u>\$ 7,646</u>	<u>\$ 233,293</u>

The accompanying notes are an integral part of these financial statements

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022

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, 2022**

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, 2022**

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, 2022**

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, 2022 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, 2022

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 acquisition 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, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Capital Assets, continued

The total December 31, 2022 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, 2022 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:

	<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	\$ 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, 2022

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, 2022

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, 2022**

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, 2022

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, 2022

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, 2022, the City’s deposits were fully insured or collateralized and were not exposed to custodial credit risk.

Investments – As of December 31, 2022, 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, 2022

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 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, 2022, 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, 2022 is as follows:

	Beginning Balances	Increases	Decreases	Transfers	Ending Balances
<i>Governmental Activities:</i>					
<i>Capital assets not being depreciated</i>					
Land	\$ 97,770	\$ 233,500	\$ -	\$ -	\$ 331,270
Construction in progress	1,395,706	168,145	-	(1,286,898)	276,953
Total capital assets not being depreciated	1,493,476	401,645	-	(1,286,898)	608,223
<i>Capital assets being depreciated</i>					
Infrastructure	7,662,577	1,000	-	-	7,663,577
Buildings and improvements	2,800,928	-	-	1,286,898	4,087,826
Equipment	857,620	58,451	-	-	916,071
Total capital assets being depreciated	11,321,125	59,451	-	1,286,898	12,667,474

CITY OF PHILIP

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

4. CHANGES IN CAPITAL ASSETS, continued

	Beginning Balances	Increases	Decreases	Transfers	Ending Balances
Less accumulated depreciation for:					
Infrastructure	3,150,451	236,624	-	-	3,387,075
Buildings and improvements	1,640,349	115,222	-	-	1,755,571
Equipment	622,869	38,775	-	-	661,644
Total accumulated depreciation	<u>5,413,669</u>	<u>390,621</u>	<u>-</u>	<u>-</u>	<u>5,804,290</u>
Total capital assets being depreciated, net	<u>5,907,456</u>	<u>(331,170)</u>	<u>-</u>	<u>1,286,898</u>	<u>6,863,184</u>
Governmental activities capital assets, net	<u>\$ 7,400,932</u>	<u>\$ 70,475</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,471,407</u>

Depreciation expense was charged to functions as follows:

Governmental Activities:

General Government	\$ 500
Public Safety	10,562
Public Works	355,774
Culture and Recreation	<u>23,785</u>

Total Depreciation Expense - Governmental Activities \$ 390,621

A summary of changes in business-type activities' capital assets for the year ended December 31, 2022 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	99,088	80,107	(2,147)	-	177,048
Total capital assets not being depreciated	<u>129,845</u>	<u>80,107</u>	<u>(2,147)</u>	<u>-</u>	<u>207,805</u>
<i>Capital assets being depreciated</i>					
Buildings and improvements	5,477,888	-	-	-	5,477,888
Equipment	272,925	29,432	-	-	302,357
Total capital assets being depreciated	<u>5,750,813</u>	<u>29,432</u>	<u>-</u>	<u>-</u>	<u>5,780,245</u>

CITY OF PHILIP

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

4. CHANGES IN CAPITAL ASSETS, continued

	Beginning Balances	Increases	Decreases	Transfers	Ending Balances
Less accumulated depreciation for:					
Buildings and improvements	2,595,491	113,889	-	-	2,709,380
Equipment	229,580	13,403	-	-	242,983
Total accumulated depreciation	<u>2,825,071</u>	<u>127,292</u>	<u>-</u>	<u>-</u>	<u>2,952,363</u>
Total capital assets being depreciated, net	<u>2,925,742</u>	<u>(97,860)</u>	<u>-</u>	<u>-</u>	<u>2,827,882</u>
Business-type activities capital assets, net	<u>\$ 3,055,587</u>	<u>\$ (17,753)</u>	<u>\$ (2,147)</u>	<u>\$ -</u>	<u>\$ 3,035,687</u>

Depreciation expense was charged to functions as follows:

Business-Type Activities:

Water Fund	\$ 52,298
Sewer Fund	<u>74,994</u>

Total Depreciation Expense - Business-Type Activities \$127,292

Construction in progress at December 31, 2022 is composed of the following:

Project Name	As of 12/31/2022
Governmental Activities:	
Artesian Well Relining	\$ 136,755
Pine St. Phase III Project	71,029
Stewart/Elm/Pine Improvements	39,970
Myrtle/High/Hone/Dupree Improvements	10,050
Philip Avenue Improvements	7,125
Hansen Subdivision	11,000
Airport Project	<u>1,024</u>
Total	<u>\$ 276,953</u>

Project Name	As of 12/31/2022
Business-Type Activities:	
NE Philip Wastewater System Improvements	\$ 29,844
Meter Project	<u>147,204</u>
Total	<u>\$ 177,048</u>

CITY OF PHILIP

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

4. CHANGES IN CAPITAL ASSETS, continued

Governmental Activities:

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 Stewart, Elm and Pine Street Improvement Project is a street and infrastructure improvement project. Total cost is estimated at \$1,382,895 and will be paid for from the General Fund and Community Development Block Grant Funds. This project is being combined with the NE Philip Wastewater System Improvements Project.

The Myrtle, High, Hone and Dupree Street Improvement Project is a street and sewer infrastructure improvement project. Total cost is estimated at \$1,323,900 and will be paid from the General Fund, Sewer Fund, American Rescue Plan Act (ARPA) grant funds and Community Development Block Grant funds.

The Philip Avenue Improvement Project is a street and infrastructure improvement project. Total cost is estimated at \$884,000 and will be paid from the General Fund and Sewer Fund.

Hansen Subdivision (Kroetch Addition) Project is a street and infrastructure project for a new subdivision. Total cost is estimated at \$1,625,000 and will be paid from the General Fund and Housing Infrastructure Finance Program (HIFP) funds.

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

Business-Type Activities:

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.

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

5. LONG-TERM LIABILITIES

A summary of the changes in long-term debt as of December 31, 2022 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<i>Governmental Activities:</i>					
Bonds Payable:					
Revenue Bonds	\$ 1,126,593	\$ -	\$ (31,719)	\$ 1,094,874	\$ 32,688
Compensated Absences	20,979	21,118	(16,783)	25,314	20,251
Total Long-Term Liabilities -					
Governmental Activities	<u>1,147,572</u>	<u>21,118</u>	<u>(48,502)</u>	<u>1,120,188</u>	<u>52,939</u>
<i>Business-Type Activities:</i>					
Bonds Payable:					
Revenue Bonds	976,243	-	(26,771)	949,472	27,564
Compensated Absences	6,265	6,174	(5,012)	7,427	5,941
Total Long-Term Liabilities -					
Business-Type Activities	<u>982,508</u>	<u>6,174</u>	<u>(31,783)</u>	<u>956,899</u>	<u>33,505</u>
Total Government	<u>\$ 2,130,080</u>	<u>\$ 27,292</u>	<u>\$ (80,285)</u>	<u>\$ 2,077,087</u>	<u>\$ 86,444</u>

Long-term liabilities at December 31, 2022 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.

\$ 704,523

\$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.

390,351

Compensated Absences:

Vacation and sick leave payable to City employees as of December 31, 2022; payments made from department that employees' normal salaries are paid.

25,314

Total Governmental Activities

\$ 1,120,188

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

5. LONG-TERM LIABILITIES, continued

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. \$ 491,736

\$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. 457,736

Compensated Absences:

Vacation and sick leave payable to City employees as of December 31, 2022; payments made from fund that employees' normal salaries are paid. 7,427

Total Business-Type Activities \$ 956,899

The annual requirements to amortize debt outstanding as of December 31, 2022, except for compensated absences, are as follows:

Year Ending December 31,	Governmental Activities		
	Revenue Bonds		Total
	Principal	Interest	
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	36,872	28,104	64,976
2028 - 2032	202,000	122,878	324,878
2033 - 2037	234,926	89,952	324,878
2038 - 2042	273,296	51,582	324,878
2043 - 2047	163,385	14,253	177,638
2048 - 2050	47,528	1,649	49,177
Total	<u>\$ 1,094,874</u>	<u>\$ 431,453</u>	<u>\$ 1,526,327</u>

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

5. LONG-TERM LIABILITIES, continued

Year Ending December 31,	Business-Type Activities		
	Revenue Bonds		
	Principal	Interest	Total
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	30,983	23,705	54,688
2028 - 2032	169,280	104,160	273,440
2033 - 2037	196,016	77,425	273,441
2038 - 2042	227,049	46,391	273,440
2043 - 2047	155,152	15,519	170,671
2048 - 2050	55,734	1,933	57,667
Total	\$ 949,472	\$ 372,627	\$ 1,322,099

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 four different classes of employees, Class A general members, Class B public safety and judicial members, Class C Cement Plant Retirement Fund members, and Class D Department of Labor and Regulations members.

CITY OF PHILIP

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

6. PENSION PLAN, continued

Benefits Provided, continued

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. Class A and B eligible spouses of Foundation members will receive a 60 percent joint survivor benefit when the member dies.

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

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

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to 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.

CITY OF PHILIP

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

6. PENSION PLAN, continued

Benefits Provided, continued

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

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, 2022, 2021 and 2020 was \$20,701, \$21,468, and \$20,975 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, 2022, SDRS is 100.10% funded and accordingly has a net pension asset.

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, 2022 are as follows:

Proportionate share of pension liability	\$2,037,594
Less proportionate share of net pension restricted for pension benefits	<u>2,038,957</u>
Proportionate share of net pension (asset)/liability	<u>\$ (1,363)</u>

At December 31, 2022, the City reported an (asset)/liability of (\$1,363) 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, 2022, the City's proportion was 0.01443400% which was an increase of 0.0014330% from its proportion measured as of June 30, 2021.

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

6. PENSION PLAN, continued

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

For the year ended December 31, 2022, the City recognized reduction of pension expense of \$6,168. At December 31, 2022, 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	\$ 25,967	\$ 89
Changes in assumptions	86,698	75,979
Net difference between projected and actual earnings on pension plan investments	-	3,269
Changes in proportion and difference between the City's contributions and proportionate share of contributions	2,519	95
City contributions subsequent to the measurement date	10,607	-
Total	\$ 125,791	\$ 79,432

\$10,607 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		
2023	\$	9,776
2024		19,672
2025		(20,970)
2026		27,274
Total	\$	35,752

CITY OF PHILIP

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

6. PENSION PLAN, continued

Actuarial Assumptions

The total pension liability/(asset) in the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary Increases	Graded by years of service, from 7.66% at entry to 3.15% after 25 years of service
Discount Rate	6.50% net of pension plan investment expense. This is composed of an average inflation rate of 2.50% and real returns of 4.00%
Future COLAs	2.10%

Mortality Rates:

- All mortality rates based on Pub-2010 amount-weighted mortality tables, projected generationally with improvement scale MP-2020
- Active and Terminated Vested Members:
 - Teachers, Certified Regents, and Judicial: PubT-2010
 - Other Class A Members: PubG-2010
 - Public Safety Members: PubS-2010
- Retired Members:
 - Teachers, Certified Regents, and Judicial Retirees: PubT-2010, 108% of rates above age 65
 - Other Class A Retirees: PubG-2010, 93% of rates through age 74, increasing by 2% per year until 111% of rates at age 83 and above
 - Public Safety Retirees: PubS-2010, 102% of rates at all ages
- Beneficiaries:
 - PubG-2010 contingent survivor mortality table
- Disabled Members:
 - Public Safety: PubS-2010 disabled member mortality table
 - Others: PubG-2010 disabled member mortality table

The actuarial assumptions used in the June 30, 2022 valuation were based on the results of an actuarial experience study for the period of July 1, 2016 to June 30, 2021.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for 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.).

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

6. PENSION PLAN, continued

Actuarial Assumptions, continued

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, 2022 (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%	3.7%
Fixed Income	30.0%	1.1%
Real Estate	10.0%	2.6%
Cash	<u>2.0%</u>	4.0%
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).

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:

	1% Decrease	Current Discount Rate	1% Increase
City's proportionate share of the net pension (asset) liability	\$ 283,244	\$ (1,363)	\$ (233,964)

CITY OF PHILIP

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022

6. PENSION PLAN, continued

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, 2022, 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, 2022

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
General property taxes	\$ 556,800	\$ 556,800	\$ 557,825	\$ 1,025
General sales and use taxes	550,000	550,000	641,715	91,715
Penalties and interest on delinquent taxes	500	500	1,867	1,367
Licenses and permits	8,250	8,250	8,125	(125)
Intergovernmental revenue:				
Federal grants	-	-	41,002	41,002
State grants	3,000	3,000	4,639	1,639
State shared revenues	66,600	66,600	77,224	10,624
County shared revenues	5,050	5,050	5,188	138
Charges for goods and services:				
Sanitation	9,050	9,050	47,551	38,501
Health	2,000	2,000	825	(1,175)
Culture and recreation	19,100	19,100	19,279	179
Fines and forfeits:				
Court fines and costs	500	500	169	(331)
Miscellaneous revenue:				
Interest earned	15,000	15,000	46,979	31,979
Rentals	1,950	1,950	744	(1,206)
Special assessments	6,210	6,210	5,997	(213)
Contributions and donations from private sources	50	90,050	238,000	147,950
Other	25,550	25,550	24,853	(697)
Airport	34,990	34,990	52,607	17,617
Total revenues	<u>1,304,600</u>	<u>1,394,600</u>	<u>1,774,589</u>	<u>379,989</u>
EXPENDITURES				
General government:				
Legislative	42,500	54,865	52,625	2,240
Contingency	58,375	6,475	-	6,475
(Amount transferred)		-	-	6,475
Executive	112,300	114,375	107,367	7,008
Elections	600	600	-	600
Financial administration	119,725	129,815	122,462	7,353
Other	178,500	180,000	131,985	48,015
Public safety:				
Police	164,300	225,780	218,149	7,631
Fire	20,000	20,050	17,219	2,831
Other protection	1,900	1,900	120	1,780
Public works:				
Highways and streets	369,000	395,280	471,410	(76,130)
Airport	45,000	51,280	43,491	7,789
Water	5,000	215,900	36,814	179,086
Sanitation	9,600	9,980	69,270	(59,290)
Health and welfare:				
Health	3,000	3,000	2,527	473
Humane society	150	150	40	110
Ambulance	4,500	4,500	4,381	119

See Independent Auditor's Report

CITY OF PHILIP

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 GENERAL FUND - PAGE 2 OF 2
 YEAR ENDED DECEMBER 31, 2022

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance With
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	<u>Final Budget Positive (Negative)</u>
EXPENDITURES (continued)				
Culture and recreation:				
Recreation	77,000	86,530	70,922	15,608
Parks	5,350	54,535	53,517	1,018
Libraries	2,550	2,550	2,550	-
Conservation and development:				
Economic opportunity	<u>14,650</u>	<u>14,650</u>	<u>7,992</u>	<u>6,658</u>
Total expenditures	<u>1,234,000</u>	<u>1,572,215</u>	<u>1,412,841</u>	<u>159,374</u>
Excess (deficiency) of revenues over expenditures	<u>70,600</u>	<u>(177,615)</u>	<u>361,748</u>	<u>539,363</u>
OTHER FINANCING SOURCES (USES)				
Compensation for loss of property	<u>1,000</u>	<u>68,715</u>	<u>182,554</u>	<u>113,839</u>
Total other financing sources (uses)	<u>1,000</u>	<u>68,715</u>	<u>182,554</u>	<u>113,839</u>
Net change in fund balances	71,600	(108,900)	544,302	653,202
Changes in nonspendable	-	-	9,445	9,445
Fund balances - beginning	<u>3,874,637</u>	<u>3,874,637</u>	<u>3,874,637</u>	<u>-</u>
Fund balances - ending	<u>\$ 3,946,237</u>	<u>\$ 3,765,737</u>	<u>\$ 4,428,384</u>	<u>\$ 662,647</u>

See Independent Auditor's Report

CITY OF PHILIP

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY SCHEDULES DECEMBER 31, 2022

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, 2022.

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, 2022**

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%
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	
City's proportion of the net pension (asset)/liability	0.0163369%	0.0157529%	0.0158670%	0.0144340%	
City's proportionate share of net pension (asset)/liability	\$ (1,731)	\$ (684)	\$ (121,514)	\$ (1,363)	
City's covered-employee payroll	\$ 324,701	\$ 320,308	\$ 336,667	\$ 320,926	
City's proportionate share of the net pension (asset)/liability as a percentage of its covered-employee payroll	0.53%	0.21%	36.09%	0.42%	
Plan fiduciary net position as a percentage of the total pension (asset)/liability	100.09%	100.04%	105.52%	110.10%	

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>	<u>2022</u>	
Contractually required contribution	\$ 20,503	\$ 20,975	\$ 21,468	\$ 20,701	
Contributions in relation to the contractually required contribution	<u>20,503</u>	<u>20,975</u>	<u>21,468</u>	<u>20,701</u>	
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
City's covered-employee payroll	\$ 318,229	\$ 325,080	\$ 335,441	\$ 317,990	
Contributions as a percentage of covered-employee payroll	6.44%	6.45%	6.40%	6.51%	

* 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.

CITY OF PHILIP

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION SCHEDULES DECEMBER 31, 2022

Changes from Prior Valuation

The June 30, 2022, Actuarial Valuation reflects numerous changes in actuarial assumptions as a result of an experience analysis completed since the June 30, 2021 Actuarial Valuation. In addition, two changes in actuarial methods have been implemented since the prior valuation.

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

Benefit Provision Changes

During the 2022 Legislative Session no significant SDRS benefit changes were made and gaming enforcement agents because Class B Public Safety Members.

Actuarial Assumption Changes

As a result of an experience analysis covering the period from July 1, 2016 to June 30, 2021 and presented to the SDRS Board of Trustees in April and June, 2022, significant changes to the actuarial assumptions were recommended by the SDRS Senior Actuary and adopted by the Board of Trustees first effective for this June 30, 2022 actuarial valuation.

The changes to economic assumptions included increasing the price inflation to 2.50% and increasing the wage inflation to 3.15%. The current assumed investment return assumption of 6.50% was retained, lowering the assumed real investment return to 4.00%. The baseline COLA assumption of 2.25% was also retained. Salary increase assumptions were modified to reflect the increase in assumed wage inflation and recent experience. The assumed interest on accumulated contributions was decreased to 2.25%.

The demographic assumptions were also reviewed and revised. The mortality assumption was changed to the Pub-2010 amount-weighted tables using separate tables for teachers, general, and public safety retirees, with assumptions for retirees adjusted based on credible experience. The mortality assumption for active and terminated vested members was changed to the unadjusted amount-weighted Pub-2010 tables, again by member classification and the assumption for beneficiaries was changed to the amount-weighted Pub-2010 general contingent survivor table. Adjustments based on experience were also made to the assumptions regarding retirement, termination, disability, age of spouses for married Foundation members, percentage of terminated vested members electing a refund, and benefit commencement age for terminated vested Public Safety members with 15 or more years of service.

CITY OF PHILIP

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION SCHEDULES DECEMBER 31, 2022

Actuarial Assumption Changes, continued

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%.

As of June 30, 2021, the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (2.25%) was greater than 100% and the full 0% to 3.5% COLA range was payable. For the June 30, 2021 Actuarial Valuation, future COLAs were assumed to equal the baseline COLA assumption of 2.25%.

As of June 30, 2022, the FVFR assuming future COLAs equal to the baseline COLA assumption of 2.25% is less than 100% and the July 2023 SDRS COLA is limited to a restricted maximum of 2.10%. The July 2023 SDRS COLA will equal inflation, between 0% and 2.10%. For this June 30, 2022 Actuarial Valuation, future COLAs were assumed to equal the restricted maximum COLA of 2.10%.

Actuarial assumptions are reviewed for reasonability annually and reviewed in depth periodically, with the next experience analysis anticipated before the June 30, 2027 Actuarial Valuation and any recommended 7 changes approved by the Board of Trustees are anticipated to be first implemented in the June 30, 2027 Actuarial Valuation.

Actuarial Method Changes

Actuarial method changes with minor impact were implemented for this valuation after recommendation by Cavanaugh Macdonald Consulting as part of their reviews of prior valuations. As a result, liabilities and normal costs for refund benefits and the Generational Variable Retirement Account are now calculated using the entry age normal cost method with normal costs based on the expected value of these accounts rather than the actual balance.



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, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 30, 2023.

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.

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.

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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.

Wohlenberg Ritzman + Co., LLC

Yankton, South Dakota
October 30, 2023

CITY OF PHILIP

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2022**

PRIOR AUDIT FINDINGS

There were no prior findings reported.

CITY OF PHILIP

**SCHEDULE OF AUDIT FINDINGS AND RESPONSES
DECEMBER 31, 2022**

There are no financial statement audit findings to report.